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# Summary of Developments in Major Problems of United States Foreign Policy

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The general outline of the Summary is keyed to the outline in Part III of "Major Problems of the United States Foreign Policy, 1947—A Study Guide." Variations in this outline may occur from time to time with changes in the course of current history and the resultant shifts in the problems confronting the United States. Any major variations of this kind will be noted in the Introduction to each issue of the Summary.

The material in this Summary is based on publicly available official documents bearing on the events recorded and on information contained in selected American and foreign newspapers. Every effort is made to verify the accuracy of the statements made.

This publication is a part of a broad program of research and education in international relations, recently inaugurated by the Brookings Institution and focused on the current foreign policies of the United States. The program is being undertaken by the staff of the Institution's International Studies Group. The Summary is prepared by Jeannette E. Muther assisted by Constance G. Coblentz, Marie J. Thresher, Frances M. Shattuck, Tatiana Buzanova, and Maxine Lybarger, under the guidance of the principal members of the research staff.

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## OUTSTANDING DEVELOPMENTS OF THE MONTH

A major shift in British foreign policy was the outstanding development during January affecting the major problems of United States foreign policy. In a lengthy statement before the House of Commons on January 22, Foreign Secretary Bevin reviewed the course of Anglo-Soviet relations, especially in regard to the whole European peace settlement, and concluded that the "time is ripe for a consolidation of Western Europe." While a formal political union was not proposed, it was clear that in the coming months British policy will be directed toward a closer drawing together of the nations of Western Europe through treaties or "at least understandings."

The United States immediately made it known that, as in the case of the European recovery program, it welcomed further European initiative in proposing measures that would enable the Western European countries to "concert with one another for their common safety and good." An announcement of the Department of State on January 23 stated that "any proposal looking to a closer material and spiritual link between the Western European nations" would serve to "reinforce" the efforts that Great Britain and the United States have been making "to lay the foundation for a firm peace."

Soviet reaction to the British proposal came from Pravda on January 25. It accused Great Britain and the United States "after the splitting of Germany ... [of] now passing to the splitting of Europe." The British proposal reproduced, Pravda claimed, "the essence of the American plans for the creation in Europe of a military bloc of western countries financed by the United States, based on the rebirth of Germany's war potential and directed against the Soviet Union and the countries of the new democracy."

The gradual deterioration of Anglo-American-Soviet relations was further emphasized during the month by the American and the British public reaction to the facts relating to Soviet-German relations from 1939 to 1941, officially disclosed for the first time through the publication by the Department of State on January 21 of selected German war documents. These records of Soviet-German conversations and exchanges were especially revealing as regards the attitude of the Soviet Union toward the Western Powers and the long-term objectives of Soviet foreign policy.

All these events followed other major developments earlier in the month bearing on the European recovery program.

Two further steps were taken during January in order to assist in restoring economic stability in France. A special anti-inflationary levy was approved by the French National Assembly on January 6. Three weeks later, the French Government devalued the franc in the face of opposition from both the International Monetary Fund and Great Britain.

Discussions began on January 7 between the military governors of the Anglo-American zone in Germany and representatives of the German states on a plan for the formation of an economic government for the combined zones, a move generally regarded as key to the integration of the western German



economy into the European recovery program. These discussions had not, however, produced common agreement among the participants by the end of the month.

Congressional consideration of United States aid for a European recovery program started in January on the basis of proposals made to the Congress by President Truman in December. Public hearings on the aid program began in the Senate Committee on Foreign Relations on January 8, and in the House Committee on Foreign Affairs on January 12 and continued throughout the month.

The progress made toward effecting recovery in Western Europe was also matched by a further tightening of the bonds among the countries in Eastern Europe. On January 9 the Yugoslav National Assembly ratified mutual assistance pacts that had been signed previously with Bulgaria, Hungary, and Rumania. In mid-January a mutual assistance pact was signed between Bulgaria and Rumania, and on January 24 Hungary and Rumania concluded a twenty-year mutual alliance. While in Bucharest on January 17 for the purpose of signing the Bulgar-Rumanian pact, Bulgarian Premier Dimitrov declared that the Eastern European states planned--when the time was "ripe"--to form a federation. Ten days later Pravda publicly rebuked Dimitrov by explaining that what was needed instead of a "problematical and artificial federation" was the "consolidation and protection" of the independence and sovereignty of these countries through the "mobilization and organization of the domestic democratic forces" along the lines suggested in the Cominform manifesto.

Other outstanding developments in January involved international action taken under the auspices of the United Nations.

An organization meeting of the Interim Committee of the General Assembly was held briefly from January 5 to 9 without the participation of the member states in the Soviet orbit. Also the United Nations Palestine Commission was convened for the first time in New York on January 9 and continued its work throughout the month against a background of steadily mounting violence in Palestine between the Arabs and the Jews. And to climax eleven weeks of negotiation, the Good Offices Committee of the Security Council succeeded in arranging a truce on January 17 to end the fighting between Dutch forces and those of the Indonesian Republic.

After a hearing before the Security Council of the India-Pakistan dispute over Kashmir and Jammu, the two countries agreed on January 20 to submit their difficulties to the mediation of a three-member Council commission. Further negotiations, however, were brought temporarily to a halt on January 30 by the assassination of Gandhi in New Delhi.

The stalemate that had developed during December at the Havana Conference on Trade and Employment appeared to be slowly dissolving in January. Although the original closing date for the Conference, January 15, could not be met because of failure to resolve several basic questions, by the end of the month enough progress had been made to indicate that compromises appeared possible on two of the most controversial items, quantitative restrictions and new preferences.



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## I. PROBLEMS OF THE PEACE SETTLEMENTS

A major change in the course of international developments during January resulted from the breakdown that occurred the previous month in the negotiations for the peace settlements at the London meeting of the Council of Foreign Ministers. A union of Western European states was openly proposed by Great Britain in light of the widening of the breach between the Soviet Union and the Western Powers. In his statement on British foreign policy before the House of Commons on January 22, Foreign Secretary Bevin first pointed out that:

"The conception of the unity of Europe and the preservation of Europe as the heart of western civilisation is accepted by most people. The importance of this has become increasingly apparent, not only to all the European nations as a result of the post-war crises through which Europe has passed and is passing, but to the whole world. No one disputes the idea of European unity, that is not the issue. The issue is whether European unity cannot be achieved without the domination and control of one great power and that is the issue which has to be solved.

"I have tried on more than one occasion to set forth in this house and at international conferences, the British policy which has been carefully considered in connection with Europe. This policy has been based on three principles. The first is that no one nation should dominate Europe. The second is that the old-fashioned conception of the balance of power as an aid should be discarded if possible. The third is that there should be substituted four-power co-operation and assistance to all the states of Europe, to enable them to evolve freely each in its own way.

"As regards the first principle I am sure that this House and the world will realise, that if a policy is pursued by any one power to try to dominate Europe by whatever means, direct or indirect, one has to be frank--that you are driven to the conclusion that it will inevitably lead again to another world war and I hope that idea will be discarded by all of us. It is this which His Majesty's Government has striven, and will continue to strive, to prevent.

"With the old-fashioned balance of power, it was a question of having a series of alliances and so manipulating them as each state moved in a particular direction, it was counteracted. I have no doubt it led to intrigues and to all kinds of difficulties particularly for the smaller states, which often became the instruments of great powers. On behalf of His Majesty's Government I have stated we will not use smaller powers as instruments of policy to produce difficulties between the larger powers: thereby giving the smaller powers a chance to evolve, under the umbrella of the four powers, without the feeling of fear or conflict.

"His Majesty's Government cannot agree to four-power co-operation while one of those four powers proceeds to impose its political and



economic system on the smaller states. On the contrary, as public opinion in those states changes, and as their economic and social development progresses, none of them will willingly submit to the great powers interfering and preventing the introduction of economic changes, or any other changes, which they deem to be for their own good."

Bevin then noted that while Great Britain had always favored the maintenance of friendly relations between the Soviet Union and its neighboring states in Eastern Europe--

"That is quite a different thing from cutting off Eastern Europe from the rest of the world and turning it into an exclusively self-contained bloc under the control of Moscow and Communist party. The European Recovery Programme brought all this to a head and made us all face up to the problem of the future organisation. We did not press the Western Union and I know that some of our neighbours were not desirous of pressing it in the hope that when we got the German-Austrian peace settlements agreement between the Four-Powers would close the breach between East and West and thus avoid the necessity of crystallising Europe into separate blocs.

"We have always wanted the widest conception of Europe including of course Russia. It is not a new idea. The idea of closer relationship between the countries of Western Europe first arose during the war and in the days of the coalition--it was discussed already in 1944--there was talk between my predecessor and the Russian Government about a Western association. His Majesty's Government at that time indicated to the Soviet Government that they would put the establishment of a world organisation first on their list. In any case they proposed to rely on the Anglo-Soviet Alliance for the purpose of containing Germany and eventually there might be similar arrangements between France and Great Britain and France and the Soviet Union for this purpose. That was in 1944. We also indicated that it might be desirable to have defence arrangements with Western Europe for the purpose of instituting a common defence policy against the possible revival of German aggression and to determine what role each state should play in the matter of armaments and the disposal of forces. We indicated that when these matters arose we would keep the Soviet Government informed which we did. ..."

After reviewing the course of the Paris negotiations for a European recovery program and the events leading up to the sudden close of the London meeting of the Council of Foreign Ministers, Bevin said:

"Now we have to face a new situation. In this it is impossible to move as quickly as we would wish. We are dealing with nations which are free to take their own decisions. It is easy enough to draw up a blueprint for a united Western Europe and to construct neat looking plans on paper. While I do not wish to discourage the work done by voluntary political organisations in advocating ambitious schemes for European recovery, I must say that it is a much slower and harder job to work out a practical programme which takes into account the



realities which face us, and I am afraid that it will have to be done a step at a time. But surely all these developments which I have been describing point to the conclusion that the free nations of Western Europe must now draw closely together. How much these countries have in common! Our sacrifices in the war, our hatred of injustice and oppression, our party democracy, our striving for economic rights and our conception and love of liberty are common among us all. Our British approach ... is based on principles which also appeal deeply to the overwhelming mass of the peoples of Western Europe.

"I believe the time is ripe for a consolidation of Western Europe. First in this context we think of the people of France. Like all old friends we have our differences from time to time, but I doubt whether ever before in our history there has been so much underlying goodwill and respect between the two peoples as now. We have a firm basis of cooperation in the Treaty of Dunkirk, we are partners in the European Recovery Programme and I would also remind the House of the useful and practical work being done by the Anglo-French Economic Committee. Through this Committee we have already succeeded in helping one another in our economic difficulties, though at first to tell the truth neither of us had very much with which to help the other. But it was useful and the work it did was useful at a very critical moment. We are not now proposing a formal political union with France as has sometimes been suggested but we shall maintain the closest possible contact and work for ever closer unity between the two nations.

"The time has come to find ways and means of developing our relations with the Benelux countries. I mean to begin talks with those countries in close accord with our French Allies. I have to inform the House that yesterday our representatives in Brussels, the Hague and Luxembourg were instructed to propose such talks in concert with their French colleagues. ...

"I hope that treaties will thus be signed with our near neighbours, the Benelux countries, making with our treaty with France an important nucleus in Western Europe, but we have then to go beyond the circle of our immediate neighbours. We shall have to consider the question of associating other historic members of European civilisation including the new Italy, in this great conception. Their eventual participation is of course no less important than that of countries with which, if only for geographical reasons, we must deal first. We are thinking now of Western Europe as a unit. ..."

In concluding his statement, Bevin made clear that the type of organization which had to be created for Western Europe must be "a spiritual union."

"... While no doubt there must be treaties or at least understandings the union must primarily be a fusion derived from the basic freedoms and ethical principles for which we all stand. It must be on terms of equality and it must contain all the elements of freedom for which we all stand. It is the goal we are now trying to reach. It cannot be written down in a rigid thesis or in a directive. It is more of a brotherhood and less of a rigid system.



"In spite of criticism levelled at her, Europe has done an amazing job since the end of the war. One has to be conversant with it to understand just what it has been like with all the economic confusion which was involved everywhere. The countries of Europe are returning now to established law and order. There had never been a war like this before. Never had it been so difficult to make peace. It is not a question of sitting down together as it was at Versailles and then at the end signing a treaty. This time it is systems, conceptions and ideologies which are in conflict. I do not want to take an irrevocable step which will make future generations pay just because I was over anxious to gain a settlement for settlement's sake. This time it has to be a real settlement which lasts for a long time.

"In this new settlement Germany, like all other European nations, must find her place, but as I have said she must not come before her recent victims. As other nations settle down, Germany can settle down but she must be prevented from becoming aggressive again. We shall welcome her return as a democratic nation. In all our efforts this is the objective for which we have been working but I must repeat to the Germans that although I am not blaming the whole German people, they were the great factor which brought the world to this condition. They must realise that as a people they have got to work hard to get their own country and the world back to a proper equilibrium. I have been glad to note the growing realisation of this fact among the Germans themselves.

"Despite all the artificial barriers set up and the propaganda blared out, which no doubt will increase after this debate, we shall pursue a course which will seek to re-unite Europe. If the present division of Europe continues it will be by the act and the will of the Soviet Government ... ."

Opposition leaders welcomed Bevin's statement. Former Foreign Secretary Anthony Eden said he had no doubt at all that the policy which Bevin had outlined offered the best hope of restoring political stability and thus providing the basis for an enduring peace. Winston Churchill, who urged that one more effort should be made to reach a settlement with the Soviet Union, promised full support of the Opposition to the policy of seeking more intimate relations with the countries of Western Europe.

Bevin's proposal was received with enthusiasm in the United States. The Department of State made the following announcement on the 23rd:

"Mr. Bevin has proposed measures which will enable the free countries of Western Europe to concert with one another for their common safety and good. As in the case of the recovery program the United States heartily welcomes European initiative in this respect and any proposal looking to a closer material and spiritual link between the Western European nations will serve to reinforce the efforts which our two countries have been making to lay the foundation for a firm peace."

Pravda, however, published a lengthy review of Bevin's speech on the 25th. Stating that the plan was "destined to failure because it [contradicted] the vital interests of the people of Europe," it was further charged:



"After the splitting of Germany, the Imperialists are now passing to the splitting of Europe. ... Bevin has expounded the plan of splitting Europe into two opposing blocs. In order to please his American masters he went so far as to address open threats to the democratic Balkan countries. ... Bevin ... reproduces the essence of the American plans for the creation in Europe of a military bloc of western countries financed by the United States, based on the rebirth of Germany's war potential and directed against the Soviet Union and the countries of the new democracy."

## A. PEACE SETTLEMENT NEGOTIATIONS

### 1. Germany

#### Bizonal Economic Government

The Military Governors of the Anglo-American zone of Germany, meeting on January 7 with the Minister-Presidents of the states and the chief officials of the Economic Council, presented for consideration a plan for the formation of an economic government for the combined zones. It provided for the establishment of a legislative body consisting of an upper and a lower house, a Cabinet, and a Supreme Court. The American Military Governor, Gen. Clay, laid the following proposals before the German leaders:

1. That the existing Economic Council should be doubled to number 104 members, all to be appointed, as at present, by the state parliaments.

2. That an upper house, consisting of two members elected by each state, should be established, its powers to be determined by negotiation between the states and the Economic Council but not to include initiation of financial legislation.

3. That an executive should be elected by the Economic Council, subject to the approval of the upper house, who would choose a Cabinet to direct the departments of economics, food and agriculture, finance, transportation, and civil service.

4. That a High Court should be set up to settle disputes between the Executive Council and the states or between the Executive Council and individuals or corporations.

5. That a central bank should be created which should be owned by the state banks but controlled by the occupation authorities. Its rights would include the issuance of currency, control of credit, and issuance of credit instruments.

Gen. Clay said that the bank would not necessarily be required to issue new currency immediately, since he and the British Military Governor proposed to make another effort in the Allied Control Council to obtain four-power agreement to currency reform. He pointed out that the Economic Council would be empowered to set up its own budget out of income tax receipts



but would have no general rights to levy taxation. It would also be given control of customs and excise, and would take over all economic functions throughout the bizonal area.

Gen. Robertson, the British Military Governor, emphasized that the new plan was designed as a temporary measure until it became possible to achieve a united Germany. "We must not at any time write off that part of Germany that cannot now be included in these proposals," he said. He told the conference that it was proposed to integrate the British and American operational staffs and to move the entire body from Berlin to Frankfurt. The divisions of economics, food and agriculture, and civil service were to be headed by Americans with British deputies, while the chairmen of the divisions of finance, transport, and communications were to be British, with American deputies. Further, the Joint Export-Import Agency and the Joint Foreign Exchange Agency were to be put under the control of a single board consisting of four British and four American members, with an American chairman and a British deputy chairman.

The following day (8th), the Germans agreed to accept the Anglo-American proposals, although they first obtained certain modifications to the plan. In accordance with their suggestions, it was provided that the Cabinet be approved by the Economic Council and that the upper house have a veto power over the Council which could be overridden only by an absolute majority of the entire Council. Gen. Clay stated that the plan as agreed would be drawn up in the form of a "charter" within 10 days and submitted again to the Germans, after which it would be put into effect at the earliest possible date.

Soviet reaction, as expressed through its controlled press in Berlin, was violent. Party leaders in the western zones who had accepted the plan were denounced as "crooks" and "quislings," and as reactionaries representing "German imperialism and militarism." An article appearing in the Tägliche Rundschau on the 11th warned that such violation of the control system would "unavoidably lead to a change in the occupation status of Berlin." Prompt declarations by American military authorities in Germany that they had no intention of leaving Berlin were supported by U. S. Under Secretary of State Lovett, who stated on the 11th that it was the policy of the United States to remain in Berlin in discharge of its obligations. Lord Pakenham spoke for his government when he declared on the following day that "we British have no intention of leaving Berlin."

The Allied Coordinating Committee met in Berlin on the 19th to consider the agenda for the following day's meeting of the Control Council. At this meeting (of the Council), General Clay described briefly the action being taken to strengthen the bizonal administration, emphasizing that the reorganization was "purely economic," "purely provisional," and "in no way [prejudged] the future organization of Germany." In reply, Marshal Sokolovsky denounced the plan and demanded that it should be abandoned. He charged that "the new bizonal agencies ... [had] been given all the authority of a federative government" and declared: "This reorganization has created even more difficulties for the return of a normal economy in Germany. The Soviet military administration insists upon the disbandment of this organization, which splits Germany and violates the Potsdam Agreement and the agreement on



the four-power machinery." This session was followed by a restricted meeting of the Council at which it was understood that General Clay presented his proposals for currency reform.

Meanwhile, the French Ambassador in London, who had protested on the 9th to British Foreign Secretary Bevin against presentation of the plan without first informing the French Government of its contents, continued to express his government's anxiety concerning the project and to press for further details of the arrangements. On the 12th, it was announced that the French Ambassador in Washington, Henri Bonnet, had been trying to obtain similar information from the Department of State. A week later (20th), he conferred with Secretary of State Marshall and in a statement following their talk, expressed the hope that "our Governments and the British will keep in contact and exchange views on these matters and try to reach common views." At a conference the next day, the Secretary of State said that he and Bonnet had come to an understanding on the Anglo-American agreement for the administration of Bizonia. However, he refused to elaborate on this comment.

British, American, and French officials began talks in Berlin on the 20th, to acquaint the French officials more fully with the structure of the new bizonal organization, and on the 21st "official sources" in Paris announced forthcoming discussions on a governmental level--relating to possible modifications in the new administration.

Basic British policy in these discussions was outlined by Foreign Secretary Bevin in his statement to the House of Commons on January 22. Bevin said that:

"After the failure of the Moscow conference I was pressed very hard to agree to some kind of Parliamentary instrument in the bi-zonal area. I opposed it then because I felt that if the step was taken it would mean probably the creation of the final division of Germany and of Europe. We therefore kept our arrangements to the economic field. While it is not bound to succeed we have tried to make this fusion work and work better by setting up an economic council. We are still hopeful in Germany and I hope I shall not be told I am too patient, because I am not waiting, we are going on with the work. By taking the right lines in our bi-zonal organisation in Germany I believe that in the end we shall achieve a proper organisation of Central Europe. ...

"... Now, as a result of talks between the American Military Governor and our Military Governor we have improved, expanded and extended the economic council on an interim basis. But that is an interim matter and in a few weeks' time it is intended that the British, French and Americans shall have an exchange of views on the three zones as well as the two. Those talks will take place at a very early date. What we have done up to now has been done as an interim arrangement. ..."

On the 28th, the French Government presented a memorandum to the United States and Great Britain criticizing the draft bizonal charter in some detail. While expressing understanding of the motives which led to the proposed organization, it objected to the allocation of increased powers to



the Economic Council which were "not an emanation from the Laender [States]," arguing that it would not solve the present difficulties; that new conflicts would arise between the States governments and the central authority, and that attempts would be made to solve them by seeking further reforms along the same lines, until finally a "veritable centralized government" would have been created. The French Government protested that powers were being put in the hands of the central organization which the United States, Great Britain, and France had agreed during the Moscow Conference should be "reserved to the competence of the Laender." While recognizing that the program was provisional in character, it objected that a trend was being created "that would be difficult to reverse later on." In consequence, the memorandum continued:

"The French Government adheres to what it believes to be at the same time the essence of federalism and the true meaning of reaching practical results--that is, the organization of cooperation between the Laender. What is needed is that competent representatives of the different Laender should be able to discuss among themselves their common problems and seek the solutions. This solution does not conflict with the establishment of common services once these services are technically justified. Nor does it need to conflict later, when the moment is opportune, with the establishment of a Federal Government."

Following a long conference between the Prime Ministers of the Anglo-American zone and Allied officials, at which the Germans were said to have presented several proposals concerning the details of administration under the new charter, Gen. Clay confirmed on the 29th that the military government hoped to proclaim the provisions of the charter within the next few days.

On the same date, the British Foreign Office handed a note to the French Ambassador which indicated that slight modifications might be made in the plan but added that, while close and sympathetic attention had been given to the French communiqué, the urgency of the situation necessitated its early implementation.

On the 30th, Dr. Hans Ehard, Prime Minister of Bavaria, announced that it was impossible for him to accept the new charter. He admitted that reform of the Economic Council was "an urgent necessity," and promised the complete co-operation of the Bavarian Government in furthering its activities and aiding in its work. But, he continued: "Consent to the charter is impossible because it easily could open the door for an unlimited centralization, could endanger the financial sovereignty of the state parliaments and could give powers to the economic council that could lead to situations exceeding by far the Weimar constitution--which really was not federalistic."

Ehard added that proposals for modification of the charter had been made to the occupation authorities--aiming at the elimination of those provisions which it was feared might lead to political as well as economic isolation of the bizonal area.



"Protocol M"

A Communist plan to disrupt the economy of western Germany as a step toward the defeat of the European Recovery Program and the ultimate triumph of the proletariat against monopoly capitalism was revealed by the British Foreign Office on January 15, when it published the text of a document described as "Protocol M". Its authenticity was denied on the same day in a statement issued in Berlin by the Soviet-controlled Socialist Unity party. Describing it as "a piece of trickery," the Socialist Unity party intimated that it had been deliberately devised to divert attention from the attacks of "American-English monopoly capitalism" against the German people.

The document set out in detail a plan to foment strikes in the Ruhr and disorganize the transport of western Germany. A partial text of the first section follows:

"The coming winter will be the decisive period in the history of the German working class. Through persistent battle and in conjunction with the working class throughout Europe, it will conquer the key positions in production. The battle is not concerned with ministerial posts but is for starting positions for the final struggle for the liberation of the proletariat of the world. ...

"There must be no doubt that in order to achieve this final victory all the weapons of the proletariat are utilized. The home of socialism, the Soviet Union, can and will support this battle against the monopoly-capitalist powers with every means at its disposal. The Communist Information Bureau in Belgrade will coordinate the common battle of all Socialist movements in Europe. Although the German party is not yet a member of this bureau, it has nevertheless a key position in the impending battle it will have to fight for the center point of European production, the Ruhr.

"The working classes of all nations will provide the necessary assistance. The task of the German party is to use this assistance unscrupulously wherever it will produce the best results. The main objective of the winter battle is to break the attack of the monopoly capitalists, which they are launching through their so-called Marshall Plan.

"The comrade functionaries, after mature reflection, have arrived at the following decisions: The centers of the mass struggle are (a) the Ruhr district and its production, (b) means of transport in north-west Germany. ....

"... It must be insured ... that ... the workers' risings occur simultaneously in transport and productive concerns. The trades unions of the transport and metal workers will carry out the succession of strikes. The party must refrain from direct participation under all circumstances. It must take into account that the military authorities will attempt to liquidate the party. In the light of previous experience it must be taken into account that Ruhr workers, owing to the considerable privileges which they enjoy, will reject the idea of strikes from opportunist



motives. Here the transport worker must play his part. Special importance is attached to the railway Bremen-Dusseldorf and Hamburg-Bielefeld. The center of the transport workers strike is Dortmund. ... It is not essential to destroy food supplies but merely to hinder their timely arrival. The timely coordination of delays in the arrival of food transports and organization of wild strikes leading to loss in production is an essential feature of the operation."

The document next proceeded to outline procedure for achieving the unity of the working class "even if it means the elimination of over-all power." The necessity for controlling the Metal Workers Union as the "center of gravity" was stressed. It was also stated that "comrades" had already been placed in "prearranged positions." Instructions for propaganda agitation then followed. Since the prohibition of all party organs in western Germany had to be reckoned with, "radio stations and a developed courier net" were to "insure a constant supply of propaganda."

Finally, the following timetable was set for carrying out the program: "(a) Until the end of December the achievement of a common SPD-KPD basis to bring about a plebiscite; (b) Until the end of February through organization of strike 'cadres', and (c) From the beginning of March the organization of general strikes."

#### Food Crisis

The first weeks of January were marked by clamors for more food by the workers, accompanied by the outbreak of sporadic strikes. German officials pleaded with the occupation authorities to increase food imports, but they were informed that there was a shortage of food everywhere in the world and that they themselves were in large measure responsible for the situation in Germany--since they had failed to collect from the farmers supplies which were known to exist. As strikes grew in intensity, British Foreign Secretary Bevin sent a personal note to U. S. Secretary of State Marshall expressing British concern at the deterioration in the food situation. The text of the note, which was sent about January 12, was not made public, but the Department of State acknowledged its receipt on the 19th, stating that it was "receiving urgent consideration."

Failure to obtain effective co-operation from the states in the collection and distribution of food led German food administration authorities to institute a new program on the 22nd under which the states not delivering their quotas were to receive a corresponding cut in imported supplies or deliveries from other states. The next day, the Economic Council passed a law requiring all stores of food to be declared and calling for the requisitioning of surplus stocks. Penalties for failure to comply with the law included imprisonment and fines up to 100,000 marks. At the same time, complaints were heard from German leaders that the Allied Control was to blame for the shortages. The Director of Food and Agriculture declared in the course of the Council's discussion that he had insufficient authority to enforce collection and intimated that if it were not for the Control the Germans would be able to import needed supplies. On the 27th, Dr. Johannes Semmler, bizonal economics director, was dismissed from his post following a violent attack on occupation policies at a party meeting of the Bavarian Christian Socialist Union earlier in the month. Semmler



had accused the military authorities of looting Germany, charged them with responsibility for the food situation, and called for a work stoppage if it were not remedied.

Commenting on the food situation at a conference in Washington on January 23, Gen. Clay said it was one to be faced by the Germans themselves, adding: "We will do more when we are convinced the Germans are doing all they can." While the strikes tended to spur the Germans to greater efforts in collecting food, he said, they had the disadvantage of providing a basis on which the Communists could promote labor chaos. He had no evidence, he added, that the strikes were directed from "east of Germany," but undoubtedly the Cominform had "had a hand in it." Clay added that the military government intended to ask Congress for \$700 million for food imports into Germany during the coming fiscal year, the additional \$200 million over this year's figure covering the amount formerly paid for by the British. He expressed the hope that with the anticipated good harvests it would be possible to increase the individual daily ration.

### Industry Dismantling Program

The Department of State made available to the House of Representatives on January 24 a statement on the progress of the plant dismantling program in Germany. The statement (which replied to 11 questions asked by the House) pointed out that although certain plants which might have made a special contribution to the German export program had been removed from Germany, this contribution had to be weighed against the contribution which these plants were now making to reconstruction of the economies of Germany's victims. It was noted further that "the revised plan for the bizonal area leaves sufficient industrial capacity to pay for needed exports," and that "in view ... of shortages of fuel, raw materials, manpower and other factors of production, it will require the utmost effort of the Germans to achieve by 1952 full utilization of even this capacity." In reply to a question as to whether any steps had been taken to delay further dismantling of plants to permit United States Congressional committees to study whether such removals were prejudicial to any general recovery program for Western Europe, the Department of State said:

"The U. S. Government has taken no [such] steps ... but is now engaged in discussions with the British regarding the question of further reparation deliveries to the east. It will be recalled that General Clay stopped deliveries of additional reparations plants and equipment in May 1946 because no agreement could be reached to implement the Potsdam Agreement for the economic unification of Germany. Since that time only the various reparations plants originally allocated and equipment from war plants which would not have been retained in Germany in any case have been delivered as reparations. Only the tag ends of one industrial plant and equipment from two war plants are in process of delivery to Russia. It is the U. S. position that no further deliveries to Russia should be made from the U. S. Zone until and unless agreement can be reached on other economic issues."

With respect to removals to those countries that signed the Paris Reparation Agreement of January 1946, the statement pointed out that fulfillment of the program had been twice delayed and concluded: "These countries need the equipment now. To postpone further the dismantling program



would cause them the most serious concern, and would give propaganda material to the critics of the United States."

### Saar Coal to France

It was announced on January 27 that the British and United States Governments had agreed to the extension of French control over coal production in the Saar area. The arrangement provided that from April 1, 1948, the entire output would be regarded as part of French production. Decreasing quantities would be allocated to other countries until April 1949, after which France would be permitted to retain the total output. It was pointed out that under this arrangement France would pay for Saar coal in francs instead of dollars as from April 1, 1948. A later Paris announcement stated that it had been further agreed between the three governments that France would be able to exchange bituminous Saar Coal for Ruhr coking coal in accordance with its needs. It was also pointed out that the allocation of the Saar coal to France would involve a reduction in the amount of coal provided for France out of the exportable surplus from Germany.

## 2. Japan

### MacArthur Statement on Economic Policy

Following charges by American critics that the occupation's economic policy was socialistic in tendency, as well as meeting opposition from within Japan toward the recently-enacted Economic Decentralization Bill, General MacArthur defended his position in an end-of-the-year statement published on January 2. He described the Japanese feudal system as "so complete a monopoly as to be in effect a form of socialism in private hands" and declared that its dissolution was essential to clear the way "for the emergence of an economy conducive to the well-being of the people--an economy embodying the principle of private capitalism based upon free competitive enterprise--an economy which long experience has demonstrated alone provides maximum incentive to development of those fundamental requirements to human progress--individual initiative and individual energy."

### Policy Decision on Food

The Far Eastern Commission made public on January 2 a policy decision by which General MacArthur was to be directed to take the necessary steps to attain the maximum production of food in Japan and to insure its equitable distribution. Noting the world-wide food shortage, the policy statement further called for the reduction of imports into Japan to a minimum. It said in part:

"In view of the acute world shortage, imports of food for Japan during the present crop year (Nov. 1, 1947-Oct. 31, 1948) should be the minimum required to prevent such starvation and widespread disease and civil unrest as would endanger the safety of the occupation forces, and no imports exceeding this minimum should be permitted which would have the effect of giving preferential treatment to the Japanese over the peoples of any Allied power or liberated area."

Meanwhile, the collection of food quotas from Japanese farmers had been showing a marked improvement since the government decision in October 1947 to take over the task of allocating quotas from the prefectural governments. On January 10, the Department of Agriculture announced that, if the current rate of delivery were maintained, it anticipated that the whole of the rice quota would be collected by February. It was not believed, however, that there would be any reduction in the demand for imports of food, Japanese estimates being that the deficit for 1948 would approximate that of 1947.

### Proposals on Peace Treaty

The Moscow radio announced on January 4 that the Soviet Government had sent a note to China on December 30 reiterating its view that the Council of Foreign Ministers of China, the United States, Great Britain, and the Soviet Union should prepare the Japanese peace treaty. The note, which replied to a proposal put forward in December by the Chinese Government that the treaty should be prepared by the Far Eastern Commission Powers under the same voting procedure that ruled in the Commission, insisted that the preparatory work should be done by the four Powers "in whose name the terms for the capitulation of Japan were signed and whose special interests in the problems of Japan after the war were recognized by the December agreement of 1945 in Moscow." The Soviet Government admitted that the interests of other states "must certainly be considered during the organization of the preparatory work" and suggested that they might participate in the same manner as they were to participate in preparation of the German treaty. Copies of the Soviet note were sent to Great Britain and the United States.

Dr. George K. C. Yeh, Chinese Vice Minister of Foreign Affairs, said on the 7th that China would insist on retention of the veto power at the Japanese peace conference "merely as a legitimate protection of her own interests."

During the course of his statement on the 22nd to the House of Commons on British foreign policy, Foreign Secretary Bevin referred in the following terms to the "conflict" with the Soviet Union over the procedure to be used in negotiating the Japanese peace treaty:

"... it is desired by the Soviet that we should refer the peace treaty to the Council of Foreign Ministers, not a very encouraging prospect. Really it is very difficult to agree to it. Here are Australia, New Zealand, India, Pakistan, Burma and the Netherlands, who were all in the Japanese war from the very day of Pearl Harbour, and while I am ready to admit that the maintenance of great Russian armies in the Maritime Provinces probably had an effect before they came into the war, the actual time that Russia was in the Japanese war was but a few days. Yet I am asked to agree that they should take a predominant position over the allies who fought in the Japanese war all the way through. Really we cannot expect people to accept that. What we propose is that the 13 or 14 countries which were involved should form the peace conference. In this way I think we are more likely to clear up the Far Eastern position and I hope the Soviet Government will see their way clear to accept it and let us get on with the business of at least making one good peace treaty. That of course includes the United States, Canada and other countries. ..."



## Reparation Issue

Following reports that the United States had entered into secret agreements for the disposal of Japanese industrial equipment to the Soviet Union as war reparation, the Department of State issued a categorical denial on January 5 that any secret commitments of this nature had been made to any nation. The Department stated that the question of Japanese reparation had been under consideration in the Far Eastern Commission for nearly two years and that numerous suggestions had been put forward by the United States and others in an effort to arrive at a solution. The United States had proposed several schedules of percentage awards based on "the over-all contribution to victory over Japan, and losses suffered due to Japan's aggression" but it was pointed out that, since all of these proposals had been rejected, they did "not constitute commitments of the United States."

The statement noted further that in 1946 the Far Eastern Commission had declared certain industrial capacity in Japan to be surplus to peacetime needs and to be available for reparation and that "in recognition of the urgent need for assistance ... in devastated Far Eastern countries," the United States Government had directed the Supreme Commander in Japan to distribute 30 per cent of this amount to China, the Philippines, Great Britain (for Malaya and Burma) and the Netherlands (for the Netherlands East Indies). The statement declared, however, that "this unilateral directive constitutes the only United States policy now in force as to the distribution of Japanese reparations shares at this time."

## Occupation Policy

In an address delivered on January 6, U. S. Army Secretary Kenneth C. Royall surveyed the achievements of the occupation in Japan and laid down the lines of future policy. He pointed out that the first purpose of the occupation had been achieved with complete demobilization, disarmament, the destruction of business and industrial monopolies, division of large land holdings, disbandment of secret, terroristic societies, and the elimination of war influences from key government posts.

Royall asserted that "a continuing economic deficit" could be expected in Japan unless there was "some degree of mass industrial production," and said the government was now faced with the task of reconciling "the inevitable area of conflict between the original concept of broad demilitarization and the new purpose of building a self-supporting nation." Realizing "that deconcentration must stop short of a point where it unduly interferes with the efficiency of Japanese industry," the government, he stated, was re-examining earlier programs. He gave assurances that decisions would be "made with realism and with the firm determination of doing all possible to prevent Japan from again waging unprovoked and aggressive and cruel war against any other nation." In conclusion, the Secretary of the Army affirmed that the United States held to "an equally definite purpose of building in Japan a self-sufficient democracy, strong enough and stable enough to support itself and at the same time to serve as a deterrent against any other totalitarian war threats which might hereafter arise in the Far East." Royall explained, following the meeting, that in using the word "deterrent" he did not mean to signify that Japan should be rearmed but pointed out that a sound, democratic government would in itself be a "deterrent" against totalitarianism.

On the 21st, Gen. McCoy, U. S. Representative on the Far Eastern Commission, announced the intention of the United States to ask Congress for funds to rebuild Japan's economy on a self-supporting basis. He asked for the co-operation of the Commission in realizing this objective.

### 3. Austria

#### Allied Control Council Meeting

At a meeting of the Allied Control Council on January 16, the United States representative proposed that a large measure of autonomy should be returned to Austria. His suggestions included: control of civil aviation; allocation of fuel and electricity; food distribution; negotiation of trade agreements; supervision of travel throughout Austria (except of nationals of occupying powers); arrest of nationals of occupying powers; planning for an army; abolition of censorship; and payment by occupying powers for housing accommodation. When the Council met on the 30th, the Soviet delegate indicated his willingness to consider the adoption of these proposals but made his acceptance conditional on the inclusion of certain additional questions in the discussions. Among these were liquidation of the military governments and control of the military courts over Austrian citizens.

#### Soviet Economic Demands

Early in December, the Soviet military authorities in Austria had announced their intention to raise by 100 per cent the price charged to the Austrian Government for oil produced in the Soviet zone. Negotiations failing to move the Soviet authorities from their decision, the government (on January 20) reluctantly accepted the increase but announced its intention to appeal to the Allied Control Council against the imposition of "this major economic burden." On the 22nd, the Soviet Military Government unexpectedly withdrew its demand for price increases.

On the next day it was announced that the Soviet authorities had requested the Austrian Government to send a delegation to Moscow empowered to contract for the purchase of a large quantity of Austrian rolling stock which the Soviet Government had seized as "war booty." The Austrian Government offered to send a delegation to discuss such a contract but not to conclude it. In a further Soviet move, the Austrian Minister of Communications was ordered to send 3,000 freight cars (claimed as Soviet property) eastward through Austria at the rate of 100 a day.

#### New Soviet Proposals on Assets

On January 24, the Soviet Union presented to the Secretariat of the Council of Foreign Ministers new proposals for settlement of its claims on German assets in Austria. The Department of State issued the following statement on the 28th in connection with these claims:

"The Soviet proposals on German assets have been received from the Secretariat of the Council of Foreign Ministers. They include



Soviet claims for concession rights to oil production areas in Austria equivalent to 2/3 of the total production of oil; concession rights for oil prospecting equal to 2/3 of all undeveloped areas in eastern Austria; refining capacity, capable of producing 450,000 tons of crude oil per year; and all undertakings in the distribution of oil products now controlled by the Soviets. The concession rights are to run for fifty (50) years.

"In addition, the Soviets claim assets of the Danube Shipping Company located in Hungary, Bulgaria and Rumania, and a 25% share of the assets of the Company located in Austria. In lieu of all other claims - or former claims to assets located in Austria - the Soviets propose a lump-sum payment of 200 million United States dollars payable within two years freely in convertible currency.

"With regard to the property transfers made to the Soviet Union, the Soviets propose that property rights shall not be subject to alienation and that economic enterprises under their control shall be permitted to export profits or other income either in the form of products or freely convertible currency. The property transferred to the Soviet Union shall be free of all obligations, and any disputes arising from the operation of the enterprises shall be settled bilaterally between the Soviet Union and Austria.

"These proposals are now under consideration in the Department of State. No date has been set for the meeting of the Deputies to discuss these proposals and to conclude the Austrian Treaty."

#### 4. Korea

##### United Nations Temporary Commission

The United Nations Temporary Commission on Korea arrived in Seoul on January 8. The first meetings were occupied with settlement of rules of procedure and the drafting of an agenda. On the 16th, the Commission approved the draft of a letter to be sent to the Military Commanders in North and South Korea requesting permission for the chairman and one member of the Secretariat to pay courtesy calls. However, it was announced on the 23rd that the Soviet Union had officially refused to allow members of the Commission to enter Northern Korea. This refusal was made known in a letter from Soviet Deputy Foreign Minister Andrei A. Gromyko to the executive assistant to the Secretary-General of the United Nations--who had relayed the Commission's request to call on the Military Commander of the Soviet zone of Korea. Gromyko wrote: "We find it necessary to remind you of the negative attitude taken by the Soviet Government toward the establishment of the United Nations Commission on Korea as already stated by the Soviet delegation during the second session of the General Assembly of the United Nations."

A report from Seoul dated the 31st said it had been learned that the Commission intended to adopt a resolution stating that in view of the Soviet refusal to co-operate with it in its work, it had been impossible for it to carry out its mission. At the same time, it was said that the Commission would propose alternative action, such as the holding of elections in the southern zone.

## B IMPLEMENTATION OF PEACE TREATIES

### 1. The Italian Treaty

#### a) Colonies

##### Four-Power Investigation Commission

The Four-Power Commission of Investigation on the former Italian colonies arrived in Italian Somaliland early in January to begin work there. At the same time a memorandum from Italy was delivered to the Big Four Foreign Ministers' Deputies, requesting a mandate over Somaliland to which Italy had given its first "civil structure and organization" after establishing sovereignty over the territory in 1889.

A riot in Mogadiscio, the capital of Somaliland, brought death to 53 and injury to 87 on January 11, when pro-Italian natives attacked a procession organized by the Somali Youth League in order to impress the Commission of Investigation with its hope for independence. Protests were made on the 11th by Italy to Great Britain, which had charge of the administration of the former Italian colonies. The Italian Government demanded adequate protection for the lives and property of Italians, freedom of expression for both Italians and Somalis in the investigation by the Commission, and an official investigation of the riot on the 11th. The British Foreign Office announced on the 16th that a court of inquiry was being established, and that the Italian Consul at Nairobi (in Kenya) was being invited to attend as an observer.

##### Reopening of U.S. Air Bases in Libya

It was disclosed in London on January 14 that Great Britain, as the administrator of the former Italian colony of Tripolitania in Libya, had given approval to a United States proposal to reopen an air base at Mellaha, outside Tripoli, used by United States transport planes during the war. United States air officials in Europe gave as the reason for the reopening the need for "additional supply-carrying transport flights ... to serve American missions in the Middle East, including the mission to Greece, and the air base at Dhahran in Saudi Arabia."

The Moscow radio reported on the 29th that formal protests had been addressed on the 21st to the United States and Great Britain--on the ground that the agreement was a violation of the Italian peace treaty. It was also charged that the reopening of the base constituted "an act directed in the first place against countries of the new democracy in Europe"--a reference to the strategic location of the base in relation to various Balkan countries. On the 30th, a Department of State spokesman confirmed that the American Government had received a note of protest from the Soviet Union on the proposed reopening of the Mellaha air base.

#### b) Trieste

##### Action to Select Governor

By January 5, the date set by the Security Council for the Italian and Yugoslav Governments to settle on a candidate for the governorship of



Trieste, no agreement had been reached on an individual suitable to both nations. It was expected that the problem would be re-examined by the Security Council. This was done on January 23 when the Council met privately to consider again the question of the appointment of a governor. Reports were heard from Italy and Yugoslavia in which it was reiterated that they had been unable to agree on a candidate.

### Civil Unrest

On the 7th there was evidence of an allied government policy in Trieste tending toward more strict observance of public order--when 29 people, who had joined in a Communist demonstration on the 4th, were ordered to appear before an Allied Military Government superior court on charges of wearing military uniforms without authorization. Further, a general order was issued providing punishment up to life imprisonment for anyone found guilty of organizing an armed force within the Anglo-American zone of Trieste.

Other signs of unrest were apparent in the area. The Communist trade union, Sindacati Unici, issued a statement (on the 7th) declaring that "all categories of Trieste were united in their decision to start the fight for the acceptance of their demands" that had been rejected by employers a week earlier. A strike of Italian bank employees was slowing down all phases of economic activity. On January 8, the Sindacati Unici called a general strike, protesting against the arrest of the Partisans accused of participation in the illegal demonstration of the 4th. However, by midnight the strike had been called off. General Gaither, head of the Allied Military Government, called the incident an effort to "discredit" the Anglo-American administration. He explained that the Yugoslavs had been arrested only because they had violated public safety laws, and asserted that their arrest was not intended as an "official gesture against the uniform" worn by the Partisans.

### United States-Yugoslav Exchanges

Warren R. Austin, U. S. representative to the United Nations, told the Security Council on January 21 that his government had (on the 16th) delivered a note to Yugoslavia advising that they (Yugoslavia) had no right to interference in the joint United States-British administration of the Free Territory of Trieste. This note was in reply to a communication from Yugoslavia on November 6, 1947, in which it was demanded that the United States Government dissolve the Italian Republican Party of Action for Venezia Giulia--a newly-formed political party--and punish its originators. The Yugoslavs had charged that this party intended to restore Venezia Giulia to Italy and that consequently its goal was to destroy "the territorial integrity of the Free Territory of Trieste and Yugoslavia." The United States answer said that although it was "appreciative of the Yugoslav Government's concern regarding the administration of the British-United States zone," it could not "accept the implication in the note of the Yugoslav Embassy which [suggested] that the Yugoslav Government [had] either the obligations or right to interfere in the internal affairs of the administration of the zone." The United States said in conclusion that it believed the "Security Council [would] be able to judge whether this govern-

ment [was] properly fulfilling its responsibilities" on the basis of periodic reports sent to the Council. A British note of the same date contained substantially the same line of argument.

Austin also distributed to members of the Council copies of another United States note delivered to the Yugoslav Foreign Office on the 15th. This had rejected a Yugoslav protest on the expulsion from Trieste of the deputy chief of the Yugoslav delegation for having made "provocative and propagandist" statements. It stated that the British commander of the joint zone had "the full support of the Government of the United States" in taking measures to preserve "public order and security" and to protect "the rights of the inhabitants."

### c) Other Treaty Provisions

#### Warships to Soviet Union

On January 17 the U. S. Department of State confirmed the existence of a secret annex and protocol to the Italian peace treaty (signed at the Council of Foreign Ministers meeting in February 1947) providing that the Soviet Government was to receive one Italian battleship, one cruiser, three destroyers, two torpedo boats, two submarines, and about 30 miscellaneous craft, if it returned to the United States and Great Britain warships that were loaned during World War II. The spokesman said that information that such a protocol was to be negotiated had been made public months earlier, but that the consent of the other countries involved--the Soviet Union, Great Britain, and France--would be necessary for the release of the text.

#### Soviet Protest on U. S. Vessels in Italian Ports

A Department of State spokesman announced on January 30 that a note had been received from the Soviet Union charging that the presence of United States naval vessels in Italian ports was a violation of the terms of the Italian peace treaty. On the same day, a foreign ministry official in Rome stated that the United States had in every instance obtained the consent of the Italian Government before sending ships into its territorial waters and ports. He pointed out that the right to give or withhold such consent was an attribute of sovereignty of all free and independent nations, but he was unwilling to comment on the Soviet note inasmuch as it was addressed to the United States and not to the Italian Government. However, on the 31st, the foreign ministry instructed the Italian Ambassador to Moscow to advise the Soviet Government that if a protest were to be made on the presence of American ships in Italian ports, Italy was the country to do it. The Italian Government made the charge that the Soviet Union had protested to Washington (without informing Italy beforehand as international courtesy required) before it considered sufficiently the basic considerations of the case, which were: (1) that visits of United States ships to Italian as to other Mediterranean ports were made only after authorization through normal diplomatic channels; (2) that the Italian Government had the exclusive sovereign right to decide if a protest were justified; and (3) that the Italian Government would grant permission with "equal cordiality" if another foreign country desired to have its warships visit Italian ports.



## 2. Satellite Treaties

### Soviet Troops in Hungary

The Soviet Union sent a note to the Hungarian Government, made public officially on January 3, stating that the Soviet forces remaining in Hungary were "only those units which [were] necessary to secure the lines of communications" to the Soviet zone of Austria. The note affirmed that the reduction in force had been completed by December 14 in accordance with Article 22 of the Hungarian peace treaty.

### Disposition of Blocked Assets

The U. S. Department of the Treasury announced on January 15 that it would, in appropriate cases, grant licenses permitting nationals of Bulgaria, Hungary, and Rumania to pay United States creditors from assets blocked in the United States in which the debtors had an interest. Rumania had frozen funds in the amount of \$19.5 million, Hungary \$9.9 million, and Bulgaria \$1.6 million. The Treasury stated that, inasmuch as the peace treaties had been ratified, the governments and citizens of these nations were no longer "enemy nationals"--although it was pointed out that most of the rules regulating transactions with nationals of these states were not so modified. On May 20, 1947 similar action had been taken with regard to Italy.

## II. ECONOMIC AND SOCIAL PROBLEMS

In submitting to the Congress on January 14 his second annual economic report, prepared by the Council of Economic Advisers, President Truman again stated the basic foreign economic policy of the United States. After reviewing the domestic situation, the President then made clear that "our international economic relations should be such as to aid in the restoration of Europe under the European Recovery Program." He reported that the United States was seeking and should always seek to negotiate with other countries for better standards for the conduct of world trade. The President noted that "the far-reaching effects of World War II upon the use of economic resources and upon the trade and business relations between nations" would be felt for many years. He pointed out the destruction the war had caused to the "physical and organizational basis of production" in most of Europe and parts of Asia, and observed that in the course of the reconstruction process "many alterations in the patterns of economic organization and trade relations" were taking place. The relatively greater importance of the United States in the world economy was observed to have been caused:

"... partly because some of the older great nations have suffered adversity, but primarily because of our own increase in production. Although other nations fortunately possess most of the resources which they need for reconstruction, certain critical resources, such as food and machinery, which are needed to revitalize their productive energies, can be supplemented only by supplies from the United States and other countries of the Western Hemisphere. The program which I have asked Congress to authorize in order to assist European recovery over the next four years may make the difference between success and failure of world reconstruction."

In concluding the section of the report on international economic relations, President Truman asserted:

"The recovery of foreign production and ability to export, our own high demand for imports, and the international agreements to reduce obstacles to trade may be expected to help other countries buy our products in the future without depending upon the extraordinary financial assistance that is now required. Nevertheless, it is natural and desirable that we maintain some surplus of exports in the years ahead by the steady investment abroad of private capital. It is desirable both from our point of view and that of other countries that we, a country rich in capital, make some of our savings available to areas where capital is needed and where properly safeguarded private investments can earn a good return."



## A. RECONSTRUCTION AND DEVELOPMENT

### 1. European Recovery Program

#### Interim Aid Agreements

The United States signed interim aid agreements with France and Austria on January 2 and a similar agreement was signed with Italy the following day. The texts were drawn up in accordance with the Foreign Aid Act of 1947, although the Department of State had found it necessary to make changes in the wording proposed by Congress in order not to offend the susceptibilities of sovereign states. France had refused to sign a text which specified that aid should be terminated whenever the President of the United States determined that it was "not adhering to the terms of its agreement," objecting to any implication that it might be guilty of such infraction. A compromise in wording was therefore evolved enabling the President to terminate the agreements at any time without giving any reason for doing so.

Provision was made in the agreements for the recipient nation to deposit in a special account the local currency equivalent of the dollar costs of the relief supplies. It was laid down that administrative expenses incurred within the country by the United States Government should be paid out of these funds and that the remainder might be used for measures of financial reform agreed to by the signatories. Included in further clauses was a provision under which the major part of the relief supplies was to be procured within the United States. Another clause specified that recipient nations should supply the United States upon request with full information relating to operations.

After the agreements had been signed, the Department of State announced the following initial allocations to the three countries: \$69.3 million to France for the purchase of coal and grain; \$21.294 million to Austria, mainly for coal and foodstuffs; and \$56.722 million to Italy to provide coal, foodstuffs, petroleum products, minerals. and medical supplies.

Speaking at ceremonies in connection with the signing of the agreement with France, U. S. Ambassador Jefferson Caffery observed: "In the same spirit in which they recently dispatched their friendship train to France, the American people ... have allocated part of the taxes they are paying to assist France 'to alleviate conditions of hunger and cold and to prevent serious economic retrogression.'" Thanking the United States for this aid, Foreign Minister Bidault declared it to be "the first time to my knowledge that one people donated to another friendly people, without any conditions save those that are sensible, the means necessary for their survival in independence and self-respect."

In Austria, U. S. High Commissioner General Keyes gave assurances that "the conditions of [the agreement] have been freely and voluntarily accepted by both sovereign governments and there are no stipulations, secret or otherwise, which in any way limit the authority or infringe upon the independence of the Austrian Government." He further declared: "The purpose of these aid agreements is to help you help yourselves." Chancellor Figl said that Austria would value this action on the part of the United States

the more highly in that it implied a new recognition of Austria's sovereign status.

On signing the Italian agreement, U. S. Ambassador Dunn spoke on similar lines and the Italian Government issued a statement that under the agreement Italy would "receive free from the United States essential food, medical supplies, fuel and other commodities to carry her people through the serious winter months." The statement emphasized that, in providing aid to Italy and other countries, the intention of the United States was to "alleviate conditions of intolerable hunger and cold, and prevent serious economic retrogression which would jeopardize any general European economic program based on self-help and cooperation."

### The European Recovery Program in Congress

Representative Eaton, Chairman of the House Foreign Affairs Committee, indicated on January 2 that the European Recovery Program presented to Congress by President Truman on December 19 would not have an easy passage. In announcing an early meeting of his Committee to begin a study of the Administration's proposals, Eaton said: "This is the most important legislation that has come before the House in my time. ... We propose to give as much time and study as is necessary to a complete understanding of all the problems... ." He refused to commit himself on a date for completion of Congressional action but remarked: "If we get through by June 1, we'll be fortunate."

The bill as introduced into the House on January 6 contained no reference to a four-year \$17 billion authorization, although request for an appropriation of \$6.8 billion for the first 15 months of the program was retained. The Administration agreed to eliminate from the bill the much-criticized proposal for Congressional authorization of the over-all figure at the suggestion of Senator Vandenberg, who argued that "a general continuing authorization ... just as definitely recognizes the contemplated continuity as if expressed in figures."

On January 6, the Department of State made public a series of reports on the possibility of fulfilling the commodity requirements of the 16 nations participating in the European Recovery Program. The reports, which were prepared for the guidance of Congress, analyzed the requirements of the European nations "in the light of availabilities, absolute need, and effective utilization ... of such scarce resources." Commodities covered comprised food, fertilizer, agricultural machinery, coal, coal mining machinery, electric power, iron and steel, inland and maritime transport, timber, and manpower. The conclusion was drawn that "the estimated requirements of the participating countries cannot in many instances be met in the first years of the recovery program and some requirements cannot be met in full over the entire period of the recovery program." Nevertheless, it was stated that "in terms of practical results ... the Executive Branch believes that its estimates of available supplies will be adequate to ensure the reactivation of the European economy on a self-supporting basis at tolerable standards of living by 1952."



On the 7th, in his message to Congress on the State of the Union, President Truman urged adoption of the European Recovery Program as being of the "highest importance." Excerpts from his remarks follow:

"We intend to work also with other nations in achieving world economic recovery. We shall continue our cooperation with the nations of the Western Hemisphere. A special program of assistance to China, to provide urgent relief needs and to speed reconstruction, will be submitted to the Congress. ...

"No nation by itself can carry these programs to success; they depend upon the cooperative and honest efforts of all participating countries. Yet the leadership is inevitably ours.

"I consider it of the highest importance that the Congress should authorize support for the European Recovery Program for the period from April 1, 1948, to June 30, 1952, with an initial amount for the first fifteen months of \$6,800,000,000. I urge the Congress to act promptly on this vital measure of our foreign policy--on this decisive contribution to world peace."

The following day (8th), Secretary of State Marshall appeared before the Senate Foreign Relations Committee to testify in support of the measure. After stressing the vital interest of the United States in the economic recovery of western Europe, he declared that this could not be brought about without outside aid and that the United States was the only country in a position to furnish such aid. He pointed out that although industrial output, except in western Germany, had almost regained its prewar volume, this was not nearly enough under the changed conditions. "The loss of European investments abroad," he said, "the destruction of merchant fleets, and the disappearance of other sources of income, together with increases in populations to be sustained, make necessary an increase in production far above prewar levels, even sufficient for a living standard considerably below prewar standards." The Secretary asked the Committee to note the "vital" difference between piecemeal relief measures and the program proposed by the Administration, which gave "substantial promise of achieving the goal of genuine recovery."

Turning to the question of the amount and timing of American aid, Secretary Marshall declared that it should be prompt, adequate, and effectively applied. He asked, therefore, that the program be put into operation "on or soon after" April 1, 1948, declaring that any delay would involve "a serious deterioration in some of the basic conditions upon which the whole project is predicated." He proposed to the Committee that "the Congress now authorize the program for its full four and one-quarter year duration"--although appropriations were being requested only for the first 15 months. He pointed out that "annual decisions on appropriations will afford full opportunity for review and control" but that "a general authorization now for the longer term will provide a necessary foundation for the continuing effort and co-operation of the European countries in a progressive program of recovery."

The amount of \$6.8 billion required for the first 15 months of the program was not, Secretary Marshall said, "an 'asking figure' based

on anticipated reductions prior to approval." It reflected "a rigorous screening of the proposals developed by the CEEC and a realistic appraisal of availabilities." American assistance of this magnitude was needed "to initiate a program of genuine recovery and to take both Europe and this nation out of the blind alley of mere continuing relief. He estimated the total cost of the program at between \$15.1 and \$17.8 billion and, while admitting that the cost was great, argued that the cost of not rendering aid would be greater.

"The proposed program," he said, "does involve some sacrifice on the part of the American people, but it should be kept in mind that the burden of the program diminishes rapidly after the first 15 months. Considerations of the cost must be related to the momentous objective on the one hand and to the probable price of the alternatives. The \$6,800,000,000 proposed for the first 15 months is less than a single month's charge of the war."

A major consideration to be borne in mind, the Secretary of State said, was "that relating to conditions or terms upon which American assistance should be extended." While recognizing that the government had an "obvious duty ... to insure insofar as possible that the aid extended should be effectively used to promote recovery," he reminded the Committee that American aid should not be used to interfere with the sovereign rights of the democratic nations participating in the program. In this connection he remarked: "I cannot emphasize too much my profound conviction that the aid we furnish must not be tied to conditions which would, in effect, destroy the whole moral justification for our co-operative assistance toward European partnership." Secretary Marshall maintained, however, that European initiative and co-operation were prerequisites to a successful conclusion of the program. He recalled the pledges which the 16 co-operating nations had made to take effective measures toward effecting their own recovery and expressed his expectation that, when the American program was initiated, they would reaffirm their multilateral agreements as an organic part of that program.

After outlining the administrative procedure proposed for carrying out the program, Secretary Marshall replied at length to criticisms that the State Department would exercise too much control. He, in turn, criticized proposals that the program should be administered by an independent corporation. His remarks in this regard follow in part:

"It has been suggested in some quarters that the administering agency should be established in the form of a government corporation. It is claimed that a corporation can be vested with broader powers and flexibility than an independent agency. I do not believe that this is necessarily so. The legislation establishing an agency can clothe it with any or all of the beneficial attributes of a government corporation. On the other hand an executive agency under the responsible direction of one man, and fitted into the existing machinery of government, will be better able to meet the requirements of the situation than a corporation directed by a board. ...

"Finally, the operation of the program must be related to the foreign policy of the Nation. The importance of the recovery program



in our foreign affairs needs no argument. To carry out this relationship effectively will require co-operation and teamwork, but I know of no other way by which the complexities of modern world affairs can be met. It should, I think, be constantly kept in mind that this great project which would be difficult enough in a normal international political climate, must be carried to success against the avowed determination of the Soviet Union and the Communist Party to oppose and sabotage it at every turn. There has been comment that the proposed organization, the Economic Co-operation Administration, would be completely under the thumb of the Department of State. This is not so, should not be so, and need not be so. I have personally interested myself to see that it will not be so. The activities of the ECA will touch on many aspects of our internal American affairs and on our economy. In the multitude of activities of this nature the Department of State should have no direction.

"But the activities of the ECA will be directly related to the affairs of the European nations, political as well as economic, and will also affect the affairs of other nations throughout the world. ... I think that in our effort to restore the stability of the governments of Western Europe it would be unfortunate to create an entirely new agency of foreign policy for the Government. There cannot be two Secretaries of State. I do not wish to interfere in the proper operations of the ECA. ..."

Ambassador Douglas, who testified before the Committee on the 9th, defended the Department's plan for administering the program, stressing, as Secretary Marshall had done, the desirability of Department of State control of a project which was "the principal instrument of our foreign policy." Senator Vandenberg indicated, however, that the proposed bill did not give the people of the United States sufficient guarantee that the program would be conducted in a businesslike way. He warned: "You must create a system in which the American people have confidence or you will be sunk without a trace."

Department of State officials told the Senate Foreign Relations Committee on the 10th that, for the period covered by the Economic Recovery Program, Great Britain would require outside financial assistance amounting to \$5.348 billion, France would need \$3.701 billion, Italy \$2.913 billion, the Anglo-American zone of Germany \$2.499 billion, and the Netherlands \$2.436 billion. Several other countries were listed as requiring lesser amounts. It was further revealed that the Administration expected Canada, the Latin American republics, and the World Bank to provide about \$4.1 billion of the amount required to cover the total deficit of the sixteen participating countries.

Meanwhile, it was reported on the 5th that "official circles" in Great Britain were concerned at the possibility that implementation of the Recovery Program might be delayed until June and to have expressed the fear that their dollar resources would be exhausted within six months. On the 7th, Sir Stafford Cripps said that, although the industrial output in Great Britain was increasing, only the foothills of achievement had been reached, and he called for further efforts on the part of the British people. He noted that the drain on dollar resources had decreased but

said that it was still too high and that every possible step was being taken to diminish it. At the same time, he warned that Great Britain would be in a grave position if aid under the Economic Recovery Program were not forthcoming, and would be faced with the necessity of making further cuts in imports of food and raw materials from the Western Hemisphere essential to support present production. Cripps stated further: "Without assistance so far as the dollar shortage is concerned, we could not play our part in European recovery and, therefore, in the recovery of the world as a whole, but should be driven back upon a policy of immediate self-preservation."

Hearings of the House Foreign Affairs Committee began on the 12th. Secretary Marshall, who was the first government official to testify, reiterated in large measure the points he had made before the Senate Foreign Relations Committee. The Secretary of State declared that he had "an open mind, both on the specific machinery of administration and on the wording of the legislation." But he insisted that "the authority for the administration of the Program should be vested in a single individual and not in a commission or board, and that matters of foreign policy must be subject to control and direction of the Secretary of State."

During the next few days, the Committees continued to hear the testimony of high administration officials. Agriculture Secretary Anderson told the Senate Foreign Relations Committee on the 13th that the aid program "contemplated no greater food shipments to Western Europe than we have been making for the last two years." He admitted "that this program, together with other foreign and domestic requirements, will continue temporarily the strain on our grain producing areas. It will delay our return to more desirable land use practices and make necessary a more intensive conservation program," but he added: "After the first year or two, as this program puts less and less emphasis on cereals, it will fit in with our needed production shifts."

Secretary of the Interior Krug, who testified before the Committee on the same day, said that it was within the capacity of the United States to supply European countries with the anticipated exports of coal and oil. The current oil shortages in the United States caused the Senators to pay particularly close attention to the proposed oil exports. Secretary Krug made it clear that such exports would be "more than offset" by imports. He declared it to be essential to supply Europe with petroleum if its industrial and agricultural production were to be revived. While admitting that this would place a strain on the supply available to the American market, the increase in domestic demand provided a much greater problem--and Krug put forward proposals for overcoming this by development of the natural resources of the United States.

On January 14, the Department of State made available to Congress a series of reports analyzing the economic and political backgrounds of the sixteen nations co-operating in the European Recovery Program, and the contribution each was expected to make to this program. The reports assumed stability of political conditions. On this basis, it was calculated that "a tolerable standard of living [could] be achieved through [the] recovery program although continued austerity [would] be necessary and it [could] not be anticipated that the prewar standard [would] be reestablished during the recovery period."



William McC. Martin, Jr., Chairman of the Export-Import Bank, in testimony on the 14th said that financial and monetary reform was of greater importance to Western European nations than physical reconstruction and urged that the administrator of the program should be vested with the widest possible powers to enable him to act "courageously and fast" whenever the opportunity presented itself. Secretary of the Army Royall told the Committee on the same day that without a European Recovery Program "the Army and its budget should be immediately and measurably increased." This view was corroborated by Defense Secretary Forrestal before the House Foreign Affairs Committee on the following day.

John J. McCloy, President of the International Bank, who appeared before the Senate Foreign Relations Committee on the 16th, suggested that--to insure the effective use of funds allotted under the recovery program--provisions should be written into the agreements incorporating procedures similar to those adopted by the Bank for supervision of its loans. Pointing out that the Bank's system was to make initial advances, with additional amounts dependent upon performance, he declared it to be "nonsense to argue that an attempt to follow proceeds of a loan or a grant [constituted] an infringement upon the sovereignty of the taker." Senator Vandenberg remarked that such a provision "would do more to put U. S. confidence in ERP than anything else." In further testimony, McCloy said that the Bank concurred in the Administration's estimate of \$6.8 billion for the first 15 months of the program and considered it to be a tight one. On the question of aid which the Bank might render, McCloy told the Committee that, although the Bank could not make relief loans under the program, it was intended that it should make "hard loans." He stated, however, that the Bank's funds were limited and that its obligations were not confined to the 16 nations participating in the recovery program.

While the Congressional hearings were in progress, European efforts to implement pledges of mutual co-operation made at the Paris conference continued. A plan to reconvene the conference itself was abandoned following a statement on January 14 by U. S. Under Secretary of State Lovett that, in his view, such a meeting should await further clarification of the plans for European recovery being considered by Congress. Following this development, it was announced on the 16th that France and Great Britain had decided to send a two-man commission on a tour of the countries of Europe participating in the European Recovery Program--to survey the work which had been accomplished toward their own recovery and co-operation in the general European effort. Discussions began on the same day between French Finance Minister René Mayer and Sir Stafford Cripps concerning the development of trade between the two countries and various aspects of the European Recovery Program.

On the 21st, a statement was laid before the Senate Foreign Relations Committee by former President Herbert Hoover which urged considerable modification of the European Recovery Program. In particular, he recommended that the United States should not commit itself even morally beyond the first 15 months of the program; that gifts should be confined to surplus consumption goods in the United States, which might amount to about \$3 billion; that American funds should not be used to purchase goods in other countries; and that the capital goods program should be extended over a longer period than that provided in the bill, while, to relieve the burden on the United

States Treasury, inquiry should be made into alternative means for financing it. Although Hoover did not state how much should be provided in the form of loans, his associates were said to have indicated that he felt about \$1 billion might be advanced in the first 15 months. A partial summary of his proposed modifications to the recovery program is presented below:

Organization. The administrative work should be conducted by one man, "but its policies should be directed by a group, no doubt including department heads, but also including nonofficial citizens." The policies should be bipartisan and the members of the board or commission should be selected "by prior consultation with the Congressional leaders."

Scope. Aid to "China and other nations, together with the occupied territories of Germany, Japan, and Korea" should be included in the program.

Conditions. "Those of the sixteen countries concerned should agree to the tri-zonal economic union of Western Germany; a peace with Japan; a cessation of plant destruction and removal; and abolition or increase in 'levels of industry' in these two countries."

Limits of United States burden. Care should be taken not to over-export and continue the trend of rising prices and inflationary spirals. To increase exports to some extent while holding prices, "strong voluntary conservation measures" should be adopted, and there should be "voluntary restraints on prices and wages," and "more and harder work with uninterrupted production."

Lightening of burden. The 15 months' capital goods program should be extended over a much longer period, while "the possibilities of early steel and machinery production in Germany should be more vigorously undertaken, obviously with readily effective curbs as to any munitions diversion."

Inquiry should be made into "methods of relieving the United States Treasury of some of this cost through collateral loans by, say, the R.F.C. or by the Export-Import Bank." Assets held in the Western Hemisphere by citizens of European countries might be pledged by those countries as security against loans. Proceeds in foreign currency of sales of United States goods by recipient countries might be used to expand supply of capital goods by private enterprise.

Gifts should be confined to "the actual American surplus of consumption goods such as food, coal, fertilizers and cotton (not for re-export) which are essential to maintain life. ... The total of such relief goods from the United States during this fifteen months might amount to \$3,000,000,000." No gifts or grants of steel and other capital goods should be made. They should be paid for "out of the increased productivity which they create."

President Truman flatly rejected Hoover's proposals at a conference on the 22nd. Vandenberg refused direct comment, but expressed his own views that:



"The four-year commitment is an indispensable factor in the plan. The participating countries must have reasonable assurance that there will be continuity for four years. But the continuity of cooperation and aid must be contingent on reasonable performance by those countries of their own self-help measures."

On the 24th, the Brookings Institution submitted for the consideration of the Senate Foreign Relations Committee a report, prepared at the request of Senator Vandenberg, on the administration of the recovery program. It concluded that a new and separate agency, to have primary responsibility for the formulation and execution of operating policies and programs for European aid, should be created in the executive branch of the government. The new agency, in a non-corporate form, would be headed by a single administrator of Cabinet status, appointed by the President with the advice and consent of the Senate. The administrator would have the benefit of the knowledge of eminent private citizens through an advisory body, of which he would be chairman. The Secretary of State would have the right to enter objections to any proposed action of the administrator and to make proposals to him. Any disagreements between the Secretary of State and the administrator that they could not resolve would be left to decision of the President. The administrator's representatives abroad in each European country would be organized into a special mission, the head of which would be a member of the regular United States diplomatic mission in the country, with a rank second only to the chief of the regular mission. The head of this special mission would be directly responsible to the administrator, but if the chief of the regular mission objected to any proposed action, it would be deferred pending reference of the matter to Washington. In addition, there would be a chief representative in Europe, with the rank of ambassador, appointed by the President to represent the United States at the continuing organization of the European countries and also to handle matters requiring joint negotiation with two or more of the participating countries.

Debate during the last week of January centered about a move to cut the suggested authorization for the first year of the European Recovery Program by at least part of the \$2.3 billion difference between the Administration's figure and the actual expenditure called for in the President's budget for the coming fiscal year. However, the Secretary of State again urged authorization of the full amount, in which he received strong support from the President who declared, on the 29th, that he also was for an "all or nothing" program on the four-year-authorization question. Support was given to the Administration in its efforts to prevent reduction of its estimates in a report drawn up by the International Bank at the request of the Senate Foreign Relations Committee and made public on the 29th. This report, which supplemented testimony given to the Committee on the 16th by McCloy, estimated the total balance-of-payments deficit of the 16 participating countries with the Western Hemisphere at \$7.6 billion for the first year, as against the Administration's estimate of \$6.75 billion.

#### Czechoslovak Trade Relations

At a conference on January 3, the Czechoslovakian Minister of Foreign Trade, Hubert Ripka (in response to a question whether United States or International Bank loans and credits to Czechoslovakia would aid the

Marshall Plan and the reconstruction of the participant states) stated that "The Marshall Plan [would] directly increase the import and export trading possibilities of all states taking part," and would "thus indirectly increase their possibilities of trading with states that are not taking a direct part in the plan." Ripka pointed out that "every improvement of the economic situation in any part of Europe" would "contribute indirectly to the prosperity of the rest of Europe." Speaking specifically of Czechoslovakia, he said:

"This is particularly evident in the case of Czechoslovakia, which has close relations through the medium of her foreign trade with all countries of Europe. The dollars allotted under the Marshall Plan will thus assist in the economic recovery of both the Western European states and the rest of Europe.

"Czechoslovakia produces many types of goods that can serve the ends of the economic reconstruction in Western Europe. Certain papers in the United States have seen fit recently to state that the whole of our production was being exported to the U.S.S.R. and to other Slav states. This quite simply is not true. It is not true even of the principal sector of our export trade, that is to say of the products of our heavy industry. Even the very widespread trade agreement concluded between Czechoslovakia and the Soviet Union on December 11 envisages an exchange of goods on a scale that amounts to no more than 15 to 16 per cent of Czechoslovakia's total foreign trade. ...

The Foreign Trade Minister also indicated that Czechoslovakia had surpluses of certain foods such as potatoes, which had been supplied to the British zone of Germany in 1947, as well as sugar and coal--the latter being exported to the United States zone regularly. Concerning the need of his country for United States aid, Ripka said:

"Our industrial capacity, and hence our ability to supply investment goods to the world, of course, would be very considerably increased if we could modernize and extend our production equipment, especially in our heavy industry. ..."

#### Latin America and the European Recovery Program

The relationship of the Latin American countries to the European Recovery Program was discussed by the Economic and Social Council of the Pan-American Union during January. The Council had been set up to study the European Recovery Program in relation to Latin America and to present proposals for greater participation of these countries in the plan. It received a memorandum from the Peruvian delegation drawn up by the Foreign Minister of Peru and first made public in Lima on December 29. In this memorandum, the Foreign Minister expressed doubt that the plan could succeed unless greater provision were made for the development needs of the Latin American countries. He pointed to the shortage of raw materials and capital equipment, the growth of new industries in Latin American countries--which would decrease their need for European exports--and the possibility that the purchasing power of these countries had been overestimated. On the expansion of industry in these countries, it was stated:



"Since 1938 ... many countries of the world and especially those of Latin America, have considerably increased their industrial production, and it is not reasonable to expect the stoppage or reduction of their new industries to make room for a European production which was established when Latin American industrial capacity was much smaller."

In a statement made public on the 30th, the advantages that the Latin American countries would derive from European recovery were pointed out by the American delegation:

"The restoration of Europe [would] be of particular assistance to Latin America where foreign trade comprises a relatively large proportion of the national income, and where strong European markets for exports are essential to continuing prosperity. The resumption of European exports, particularly in the field of capital equipment, [would] also facilitate industrial development in Latin America by easing present shortages of these items which will continue as long as the United States is the only important source."

The statement noted, however, that shortages of capital equipment would continue in the first years of the European Recovery Program and declared it to be essential to administer export controls in an equitable manner--so as to achieve the most effective distribution of these supplies to Europe and the Latin American countries, and thus maintain, as far as possible, "the continuity of industrial development in the other American republics."

## 2. Other Foreign Aid

### Soviet Lend-Lease Negotiations

Following a talk with Under Secretary of State Lovett on January 16, the Soviet Ambassador to the United States, Alexander S. Panyushkin, announced that his country was ready to resume lend-lease negotiations "in the near future." Discussions for the settlement of the Soviet lend-lease account had been discontinued in July 1947 when Nikolai Novikov (then Ambassador to the United States) returned to his country. The amount under consideration involved about \$10.7 billion, covering goods and services provided by the United States from March 1941 to September 2, 1945.

### Chinese Mission to the United States

A technical mission sent by the Chinese Government arrived in Washington on January 16 to discuss matters relating to aid to China. The group included financial and transportation experts. On the 21st, Senator Bridges, chairman of the Senate Appropriations Committee, criticized the delay in presentation of an aid to China plan. A week later (28th), Secretary of State Marshall said that a program had cleared the U. S. National Advisory Council for International Finances and was before the Bureau of the Budget--after which it would be presented to Congress. On the same day, in a statement released in Nanking and Washington, the Chinese Government promised that in return for American aid it would adopt "an adequate and practical program of domestic measures of self-help." Steps were to be taken to reform the monetary system, increase government efficiency, and encourage greater production in industry and agriculture.

## International Bank Loan Applications

On January 13, Bank President McCloy disclosed that eight applications for loans, totalling \$2.199 billion, were under consideration by the Bank. This figure did not include four loans already made to France, Belgium, Luxembourg, and Denmark in the amount of \$497 million. McCloy said that the total sum in applications was far in excess of what the Bank could handle, and that such requests were usually on a four- or five-year basis. In general, he added, loans to most European countries would have to be delayed until there have been more definite decisions on the proposed European Recovery Program.

### 3. International Long-Term Development

#### Finnish Membership in Bank and Fund

Finland became the 46th nation to become a member of the International Bank and Fund when a representative of that Government signed the Articles of Agreement of both bodies in Washington on January 14. The Finnish quota in the Fund was set at \$38 million and its subscription to the capital stock of the Bank--380 shares of a par value of \$38 million. Earlier, in an interview on the 6th, the Finnish Minister of Finance had stated that his country was seeking loans from foreign governments. However, he did not specify which governments had been contacted. Pointing out that Finland's credit rating should be high because consistent payments had been made on war reparations and because 1947 export totals were 50 per cent above estimates, the finance minister added:

"We urgently need fresh foreign capital. We Finns are in a hole into which we have been dumped by wars and the unfortunate price and wage policy of our extreme Leftists. This year it is imperative to make the Finnish masses realize that wage increases generally mean higher prices and continued inflation."

#### United Nations Economic Commission for Latin America

At the January 20 meeting of the ad hoc committee, set up to decide if the proposed Economic Commission for Latin America should be established, a draft resolution (to be placed before the Economic and Social Council on February 2) was presented by the Chilean, Peruvian, and Venezuelan delegates. A resolution from the Inter-American Economic and Social Council of the Pan American Union, advocating the immediate establishment of an ECLA, was also received. The ad hoc committee had postponed consideration of its problem until consultation with the Pan American Union had been possible.

The ad hoc committee accepted substantially the suggestions of the Chilean and Venezuelan Governments on the 26th. The terms of reference as decided upon authorized the proposed Commission to initiate measures to facilitate concerted economic action to deal with urgent postwar economic problems; to raise the level of economic activity in Latin American countries and strengthen their economic relations; to make studies of economic and



technological problems; to undertake or sponsor the collection and dissemination of economic, technological, and statistical materials and information, etc. It was proposed that membership be open to members of the United Nations in North, Central, and South America--as well as to those in the Caribbean area, and to France, the Netherlands, and Great Britain.

## B. COMMERCIAL POLICY

In his message on the State of the Union at the opening of Congress, President Truman described some of the "most important efforts" being made in "support of world reconstruction." The United States, he said, was "seeking to restore the world trading system which was shattered by the war and to remedy the economic paralysis which grips many countries." To carry out the first part of this policy, the President declared, "we have recently taken the lead in bringing about the greatest reduction of world tariffs that the world has ever seen," and he told Congress that "the extension of the provisions of the Reciprocal Trade Agreements Act, which made this achievement possible, is of extreme importance."

### 1. International Trade Organization

#### General Agreement on Tariffs and Trade

As of January 1, according to a Department of State release of January 15, the General Agreement negotiated at Geneva in October had been brought into force provisionally by the United States and eight other countries, namely: Australia, the Belgium-Netherlands-Luxembourg Customs Union (Benelux), Canada, Cuba, France, and the United Kingdom. On the part of the United States, the agreement became provisionally effective to the extent specified in the Proclamations of December 16 and January 2--that is, it made effective the lowered United States rates of duty in Schedule XX on the items primarily supplied in its trade by those eight foreign countries. In those countries, likewise, there were various limitations on the complete application of the tariff concessions made in their respective Schedules of the Agreement.

The remaining countries represented at Geneva--Brazil, Burma, Ceylon, Chile, China, Czechoslovakia, India, New Zealand, Norway, Pakistan, Southern Rhodesia, Syro-Lebanese Customs Union, and the Union of South Africa--have until June 30, 1948 to give provisional effect to the General Agreement. As each of them signifies its intention to put its tariff concessions into effect, a further Presidential Proclamation will give effect to United States rates of duty in Schedule XX now withheld on items of primary interest to such countries.

On the 29th, the British Parliament ratified the Agreement, but only after the government had been assailed from both sides of the House of Commons for "kowtowing to the United States" and subscribing to trade policies that had become obsolete. Both Labor and Conservative members urged that Britain push the Bevin proposal for Western European unity and develop thereby a trading area capable of competing with the United States. Multilateral obligations implicit in the Geneva Agreement, it was maintained,

were irreconcilable with Foreign Office policy for the unification of Western Europe.

### Havana Conference

In Havana, delegates of 58 nations to the Trade and Employment Conference continued meetings in an endeavor to reach agreement on a charter for the proposed International Trade Organization. By New Year's Day it was apparent that the Conference, scheduled to close by January 15, could not meet that deadline. The General Committee therefore ordered a speed-up in the work of the subcommittees and decided that interim reports on the principal unresolved issues should be made to the heads of delegations by January 14. During the following two weeks, three of the main committees finished their tasks: those on Employment, Intergovernmental Commodity Agreements, and Cartels and Other Restrictive Business Practices. The sections of the proposed charter dealing with these subjects were therefore ready to be presented to the full Conference for formal approval, which was considered virtually certain since all the main committees comprise representatives of all delegations. However, the other three main committees remained deadlocked over a number of major issues.

One of the most "political" of these was the question of relations between ITO members and nonmembers. The chief difficulty was obviously the absence of the USSR and most of the satellites from the Conference (and presumably from the future ITO) and the fact that Spain would be ineligible for membership so long as the present United Nations action against the Franco government persists. It was the United States position that, after a year, members should confine their trade concessions to other members only, except in special cases authorized by the ITO, on the grounds that: (1) members should not be free to treat nonmembers better than other members; (2) no premium should be put on staying out of the Organization by nonmembers being able to get all the advantages without incurring the obligations of membership; and (3) nonmembers should not be allowed to give better treatment to one member than to another. At the other extreme, Czechoslovakia proposed that any member with important trade relations with nonmembers should be allowed to suspend application of any provision of the charter and withdraw from the ITO if other members objected. In between, a proposal sponsored by Great Britain, Australia, and Belgium would give the Organization discretion to determine whether any arrangement between a member and a nonmember was objectionable under the charter, thus avoiding both an "unduly rigid" code and the placing of a premium on nonmembership.

The earlier debate on voting power, in which the United States had finally accepted the one-member, one-vote system, continued during this period in the form of controversy over whether the industrially most advanced countries should be guaranteed seats on the executive board. The United States insisted on this position, especially since it had conceded the unweighted voting principle. On the 3rd, the problem took a new twist when Australia and New Zealand proposed to eliminate the requirement that the ITO accept the relevant "determinations" of the International Fund on whether a member is in balance-of-payments difficulties and thus entitled to ITO exceptions permitting the temporary imposition of import quotas to safeguard its situation. The United States was opposed to this, considering that no member should be in a position to evade the Fund's possible



refusal of the right to impose exchange controls by obtaining ITO approval for quota impositions that would have the same effect. (In the Fund, the United States holds about 36 per cent of the voting weight). This question was referred to a subcommittee.

The whole quantitative-restriction controversy, which has been a major stumbling block to the Conference all along, also took a new turn when Switzerland, on the 5th, introduced a resolution providing that countries not undergoing balance-of-payments difficulties should also be entitled to use import quotas and other restrictions on trade if these became necessary, because of harmful effects from other nations' restrictions, to protect their own economic stability, particularly in agriculture and employment.

There was also considerable discussion of the proposals dealing with private international investments. So many exceptions had been made to the Geneva draft, providing fair treatment for foreign investors, as to make it worthless in the United States view. It was therefore proposed to substitute a new provision requiring members to negotiate controversies arising in this field, such as overpayments in the case of expropriation of foreign investment. A number of the smaller countries, however, feared that foreign investments might serve as a basis for interference in their internal affairs and that the proposed negotiation requirement would constitute infringement of their sovereignty. The United States position was that any nation could completely exclude all foreign capital if it wished, but that when foreign investments are admitted the investor should be guaranteed fair treatment. Both William L. Clayton, chairman, and Clair Wilcox, vice-chairman of the U. S. delegation, emphasized the importance of the charter's stimulating rather than discouraging the flow of private capital to under-developed countries, and sought to dispel the "misconception" that the United States has reached a point where investment opportunities are lacking at home and savings must therefore seek investment abroad under any terms the foreign countries demand. By the middle of the month, sufficient agreement had been reached on this question to send it to a drafting subcommittee.

The United States also met opposition when the subject of subsidies came up in the debates on commercial policy provisions of the charter. The United States proposed to amend the Geneva provisions to except primary commodities from the general prohibition on export subsidies after two years and from the requirement that members must notify the ITO of existing subsidies and be prepared to discuss the possibility of limiting them at the request of any member who might be harmed. Donald Kennedy of the U. S. delegation told the Conference on January 7 that this country does not intend to use "predatory export subsidies" (which he defined as designed to increase one country's share of world markets above what it would be if producers had to sell at world prices), but that it objects to having its own type of subsidization penalized while allowances are made for other types that might be "just as harmful." The proposal was referred to a special subcommittee to try to reconcile the United States position with the fears of other delegations that subsidy privileges might be abused in future if world markets become glutted again with surpluses in cotton, tobacco, and wheat.

In addition to these developments, a number of old arguments, especially over quantitative restrictions and preferences, continued without solution. On the 14th, Wilcox was reported to have told the other delegation heads that the United States will not, "now or ever," make any further concessions on import quotas and other quantitative restrictions. After receiving the status reports of the various committees, the secretary general of the Conference reported to the General Committee, on the 16th, that seven major issues were still unresolved: (1) Must there be prior approval by the ITO for the use of import quotas and other quantitative restrictions in economic development plans? (2) Must there be prior approval by the ITO for new preferential trade arrangements? (3) Should the chief economic powers have permanent seats on the executive board? (4) Should there be established an economic development committee to deal with the special problems of underdeveloped countries? (5) Should there be established a tariff committee (and with what membership), and should it be authorized to determine whether a member has failed to carry out its obligations? (6) To what extent should recourse to the International Court of Justice be permitted from ITO decisions? (7) What should be the relation of the ITO and its members to non-member nations? The General Committee then decided to extend the time for completion of committee work to the end of the month. A proposal to appoint a special committee to consider all these unresolved questions was tabled for the time being after the United States had opposed such action as more likely to hinder than to speed the satisfactory committee work then in progress.

During the rest of the month, the committees and subcommittees continued to make progress on the various unfinished portions of the charter, including committee approval of a United States amendment permitting commodity agreements between two or more nations for defense stock-piling of strategic materials, as well as the completion of all but two articles regarding membership. On the 22nd, the subcommittee in charge of redrafting the international investment article announced completion of its work. The new draft was aimed to encourage the flow of private investments and to recognize the rights of both investor and recipient countries. At the end of the month, however, and before the full committee had acted on the new draft, the International Chamber of Commerce objected to the article as providing inadequate protection to investors.

On the 24th, the secretariat announced it was beginning a reduction in personnel in an endeavor to keep within the Conference budget, strained by the extension of proceedings beyond the original closing date, since additional funds could not be expected at any rate before the United Nations Budget Committee meets in March. In a progress report the secretariat said that the Conference was "in sight" of its goal, although great differences still existed on some six to 10 critical articles.

On January 26, a working party was set up to consider a new American proposal that would require governments with occupation responsibilities in Germany and Japan, when signing the ITO charter, to do so both for themselves and their areas of occupation, to the extent and for the duration of their responsibility. Both the Polish and Czech delegates opposed consideration of this amendment as outside the competence of the Conference since only the Allied Control authorities in Germany and the Far Eastern Commission for Japan had this authority.



It was announced at this time, also, that the conferees hoped to conclude the meeting by mid-February. To facilitate this, a co-ordination committee was finally agreed to on January 31 to seek compromise on the still unresolved questions that hampered final agreement. The Uruguayan delegate, on behalf of sixteen Latin American nations, proposed this measure again to the heads of delegations. It was a necessary step, according to Dr. Charlone, since the chief reason for the stalemate has been the failure to give adequate consideration to the desire of the undeveloped countries for industrialization, which they consider of "fundamental importance." Wilcox, acting head of the U. S. delegation, moved adoption of the proposal at this time. He also indicated, for the first time, the possibility of a compromise with the undeveloped countries on the major unsettled issues dealing with economic development, stating that a new Brazilian draft of the quantitative-restrictions article might solve that problem and that proposals concerning the establishment of customs unions and free-trade arrangements might get over the difficulty of the prohibition of new preferential tariffs without prior approval.

## 2. Foreign Commercial Agreements

### Benelux Customs Agreement

The Belgium-Netherlands-Luxembourg customs agreement became effective on January 1. Under its terms, a common tariff of import duties was applied at the frontiers of three countries to merchandise coming from any other country, but was not to be collected on imports from the Netherlands into the Belgo-Luxembourg Economic Union, or vice versa. The institution of the customs convention, however, did not signify the unification as yet of all other taxes or imposts levied on imports by these countries nor the abrogation of regulations applying to exchange, imports, and exports among the three countries. Strict licensing controls would remain in effect, for example, in part because the Netherlands and Belgium possess unequal stocks of consumer goods, and "turnover taxes," similar to sales taxes, would still be collected at the Belgo-Dutch frontier.

At the end of the month (January 29), it was reported from Paris that France had proposed to the Benelux governments that a preliminary study should be made of the possibility of a customs union between France and the three countries.

### Soviet-Norwegian Agreement

The Norwegian Supply Minister, Oscar Torp, announced on January 7 that on the previous day in Moscow a trade pact for the year 1948 had been signed with the Soviet Government. In return for 20,000 tons of Norwegian whale oil, 30,000 tons of herring, aluminum, cellulose ores and other minerals, the Soviet Union was to supply Norway 100,000 tons of wheat, 50,000 tons of rye, and phosphate, manganese, and chrome ore in undisclosed amounts. The agreement was said to envisage a "considerable increase" in the exchange of goods, which in 1947 (according to the Supply Minister) amounted to about \$12 million.

### Soviet-Belgo-Luxembourg Agreement

A trade agreement between the Soviet Union and Belgium and Luxembourg acting jointly was signed in Moscow on January 21--concluding negotiations that had extended over several months. The Soviet Union agreed to export to Belgium three billion francs in goods, including approximately 500,000 tons of cereals. They stated as well their willingness to supply timber and chemical raw materials to Belgium who, in return, would ship to the Soviet Union iron and steel goods, engines, and finished chemical products.

### Soviet-Polish Agreement

A communiqué issued in Warsaw on the 27th claimed that, as a consequence of an economic agreement signed on the 26th, Soviet-Polish trade would be doubled. Provision for a trade turnover of \$1 billion in the next five years and a \$450 million medium-term credit to the Poles for the purchase of investment goods from 1948 to 1956 was included in the pact. The Soviet Union also promised to sell Poland on credit for immediate delivery another 200,000 tons of grain, and to supply them with machinery.

In an interview on January 30, the Polish Minister of Industry, Hilary Minc, Vice-Premier Gomulka, and Premier Cyrankiewicz--the three leaders of the Polish Mission to Moscow--announced additional details of the agreements. Soviet technology would be placed at Poland's disposal to build up its industry with the capital goods and credit provided for. Neither the Premier nor Vice-Premier would elaborate on the political discussions also held in Moscow, but emphasized that no political strings were attached to the trade agreement in contrast to the strings they said the United States was preparing to attach to Marshall Plan aid. Mr. Minc also claimed that Russia's determination to build up Poland's industrial potential would result in the ability of Poland to extend trade relations with the West despite the doubling of Russo-Polish trade. He further stated that the Soviet Union would no longer receive Polish coal beyond the 6.5 million tons of so-called "reparations" coal. It has also been taking a million tons or more annually on a commercial basis, but this would now be available for sale to western countries, presumably for items, such as mining machinery, that the Soviet Union is unable to supply.

## 3. Economic Commission for Europe

### Coal Committee

The coal committee of the ECE opened its second session in Geneva on the 26th with delegates from 20 nations in attendance. The United States representative was elected chairman. Procedures were set up for dealing with issues relating to the movement of coal and problems of joint interest to the coal and electric power committees. During the first meeting, Sir John Boyd Orr of the Food and Agriculture Organization stressed, in a speech to the delegates, the close relationship between coal and agriculture production. The committee, on the same day, decided to set up a coal movements working party to make a study of the best ways of transporting coal by rail, inland waterways, and sea. On January 27 the Governments of Great Britain



and Poland reported that their countries had improved their output of coal. The British representative said that it would be possible to export coal to the continent sooner than had been expected, and that some trade agreements for coal export had been concluded and others were in process of negotiation. The Polish delegate told the committee that Polish production was expected to be eight million tons greater in 1948 than in 1947, and of this amount 6.5 million tons would be available for export in Europe, exclusive of the Soviet Union.

### Timber Subcommittee

Gunnar Myrdal, executive secretary of the ECE, told the opening session of the subcommittee on timber meeting in Geneva on January 28 that there was much improvement in the outlook for European timber supply. Myrdal declared that "it now looks as if our worries about the deadlock in the European timber trade were somewhat exaggerated," but he conceded that there would probably be a European deficit about 25 per cent of the total import requirements--one third of which would have to be obtained from dollar area sources unless the European output could be "stepped up."

A new type of international accord was reached at the closing meeting of the timber committee on January 31, when 10 European countries agreed to limit their purchases for timber to be delivered in 1948--in an effort to avoid co-operatively the consequences of excessive competition for this scarce commodity. Another important step taken concerned the setting up of a program for the supply of about \$12 million in materials and equipment to timber-producing countries. As a result of this move, it was expected European production of soft woods and pit crops would be increased by \$19 million in the next two years.

## C. SOCIAL POLICY

### 1. International Social Co-operation

#### Commission on the Status of Women

The second session of the Commission on the Status of Women met at Lake Success from January 5 to 19. The early discussions of the group were devoted to an examination of a number of proposed resolutions. Among those adopted before the close of the gathering were the following: on the 12th, three measures relating to the economic rights of women and, on the following day, five resolutions concerned with women's political rights. These included recommendations that married women be granted equal nationality rights with men and single women, and that member governments not presently granting franchise rights and eligibility to public office to women be urged to take immediate and appropriate action to achieve this goal. On the 14th, a proposal was adopted which provided that if women were to have freedom of choice in marriage (as recommended during the first session of the Commission), they must have "the right to leave their country on marriage and to reside with the other partner in any country from which they cannot lawfully be excluded." This resolution, introduced by the delegations of India and the United Kingdom, met with strong Soviet opposition before its passage.

At the closing meeting on the 19th the Commission adopted an amended text of its report to the Economic and Social Council.

### World Health Organization

The fifth session of the interim commission of the World Health Organization convened in Geneva on January 22, and proceeded with the drawing up of an agenda for the first World Health Assembly to be held as soon as 28 members of the United Nations had ratified the WHO constitution. On the opening day, 20 members and eight nonmembers had become parties to the document. The United States delegate told the gathering that he was confident that the House of Representatives would soon take action, while the Soviet representative declared that his country might ratify before the close of the session as it desired to end the interim period of the Organization. On the 26th, the adherence of Australia was announced, and the commission was told by the chairman that Afghanistan, Czechoslovakia, Greece, and Poland had also completed ratification, but that they had not yet deposited their instruments.

On the same day the commission approved co-operation with the International Children's Emergency Fund in a program to wipe out tuberculosis, and on the 27th heard a report from the Egyptian representative on the recent cholera epidemic in his country. Top priority was given to the problem of malaria control (from which 100 million persons yearly were reported to suffer) and to the initiation of a maternal and child health program proposed by the United States representative. On the 31st, the commission voted to hold the first World Health Assembly in Geneva in June 1948, changing a previous decision to meet in the Western Hemisphere because of the dollar exchange difficulties of numerous countries.

## 2. Displaced Persons

In his State of the Union message on January 7, President Truman again proposed congressional legislation to admit "many thousands of displaced persons" into the United States. In this connection he said: "I again urge the Congress to pass suitable legislation at once so that this nation may do its share in caring for the homeless and suffering refugees of all faiths. I believe that the admission of these persons will add to the strength and energy of this nation."

### International Refugee Organization

At the opening of the fifth meeting of the International Refugee Organization preparatory commission in Geneva on January 20, executive secretary William H. Tuck presented a report which included the recommendation for a 1948-49 budget of \$155.03 million. It was indicated, however, that of this amount only about \$117 million would probably be available--as approximately 75 per cent of the budget had been pledged by states now signatory to the constitution. Tuck also submitted a special report presenting the problem of responsibility for newly arrived refugees. He said it was a "deeply disturbing" fact but one which needed to be faced "that many eligible refugees and displaced persons who are in need of assistance



are not receiving it. It is clear that the admission to care and maintenance of so large a number of new cases [estimated at 383,000 persons] would wreck the run-down calculations upon which the budget estimates are based." The executive secretary requested the commission either to set a date beyond which refugees would be unable to acquire "status" from the IRO, or to face squarely the issue of a continuing international organization to handle the problem. The reasons for the increase in potential refugees were listed as fear of new persecutions, famine, and the "altered political situation in a number of countries."

On the 22nd, Tuck told the group that in 1948 the plan was to resettle 400,000 displaced persons. In a session on budgetary matters, the British delegate suggested to the commission, on the 24th, the establishment of a "working capital fund" to expedite the resettlement of refugees. He said this would be "not only a step toward more rapid action in solving the problem with which we are faced but... also good business." Under the proposal, the secretary would be authorized to accept contributions from governments beyond the amounts of their annual quotas--these monies to be used to make capital expenditures that would have the effect of reducing current expenditures within a few years.

Following a talk on the 26th by the Brazilian delegate on plans his country had for co-ordinating the refugee and colonization problems, the Commission unanimously adopted a resolution which provided for voluntary contributions by the member governments to a special fund to be used for large-scale resettlement in colonization projects. The next day (27th) the Commission agreed to set up a committee to hear testimony from voluntary relief agencies--establishing the first formal machinery between those groups accepting responsibility for much of the relief of displaced persons and the IRO.

On the 30th the Commission decided on a recommendation to the future council of the IRO (6 to 3, with 2 abstentions) to the effect that persons leaving their countries of origin or habitual residence after February 1 would become ineligible for international aid. The U. S. delegate supported this measure, declaring: "We have reached the limit of our resources." France, Belgium, and the Netherlands were in opposition. The decision was attacked by representatives of voluntary relief agencies attending the sessions and was expected to lead to an early crisis over the future of international action as it related to the refugee problem.

### III. POLITICAL PROBLEMS

In his State of the Union message which he delivered personally before a joint session of the Congress on January 7, President Truman again stressed the basic policy of the United States in its foreign relations. He said that the aim of the United States was "to achieve world peace based on principles of freedom and justice and the equality of all nations," and pointed out that:

"Twice within our generation world wars have taught us that we cannot isolate ourselves from the rest of the world. We have learned that the loss of freedom in any area of the world means a loss of freedom to ourselves--that the loss of independence by any nation adds directly to the insecurity of the United States and all free nations. We have learned that a healthy world economy is essential to world peace--that economic distress is a disease whose evil effects spread far beyond the boundaries of the afflicted nation. For these reasons the United States is vigorously following policies designed to achieve a peaceful and prosperous world."

The President defined these policies as: full support of the United Nations; maintenance of strong armed forces; aid to Greece and Turkey; exertion of every effort to effect peace settlements for the occupied countries; restoration of the world trading system and of world economic recovery. The President especially made the point that substantial aid had been given to Greece and Turkey "to assist these nations in preserving their integrity against foreign pressures," and that without such aid "their situation today might well be radically different." He emphasized that "the continued integrity of those countries will have a powerful effect upon other nations in the Middle East and in Europe struggling to maintain their independence while they repair the ravages of war."

#### A. POLITICAL INDEPENDENCE AND FREE INSTITUTIONS

##### 1. France

##### Passage of Anti-Inflationary Levy

On January 3, debate opened in the National Assembly on the Schuman compromise bill for a special anti-inflationary levy--designed to result in about 125 billion francs in revenue. The measure, on which the Premier said the government would "stake its existence" split the difference between a government estimate of a return of about 150 billion francs in taxes and loans and an Assembly estimate which reduced the amount to 100 billion francs. Schuman, in introducing the bill a day earlier (2nd), had declared that its purpose was dual--to obtain funds for reconstruction and "to subtract from the mass of purchasing power an amount sufficient to prevent an exaggerated rise of prices." Official figures made public in Paris (2nd) emphasized the need for anti-inflation legislation, when it was disclosed that during 1947 the general index of prices (1938 as the base of 100) had risen from 856 on January 1 to 1,354 on December 31--an increase of 59.5 per cent.



After lively debate, during which opposition was voiced consistently by the deputies representing the Communist party and the extreme Right, the levy was passed on the 5th by a vote of 315 to 268 (after rejection of all amendments in five separate votes, each of which the government made the subject of a vote of confidence). On the 6th, after adoption by the Council of the Republic and following final Assembly approval, the bill became law. The division of the deputies on this measure made it evident that Schuman was dependent upon a "third group" of the Center parties for support of his policies. One of the most forceful statements on the bill was that made by former Premier Paul Reynaud who explained that he voted against amendment because he considered it to be against the interests of France to have the government fall at that time. He also warned that history had proved forced loans and excessive taxation to be unfavorable politically.

The Minister of Finance, René Mayer, in a broadcast on the 8th to the nation in defense of the new bill, termed it a turning point in the recovery of France from the "poison" of inflation that--if unchecked--would ruin the currency. He reiterated that tax and loan yields would be used for reconstruction and re-equipment, and stressed the return to free markets by the giving up of "ineffective and useless" price controls. Mayer promised these would be still further reduced in order to re-establish competition and end black market practices.

In a broadcast on January 11, the Minister of Agriculture urged the French farmers to back the special compulsory loan and to discount Communist propaganda directed at the agrarian workers. The Minister said:

"Thanks to the majority of workers, the Government has resisted the assault from those who would destroy our institutions. Before you listen to the critics and the instigators of doubt and revolt, look carefully to see who they are. In their front ranks, you'll find those same persons who have just attempted to deceive the working classes into aiding an attempt to stifle French liberties. Having failed in that first attempt, they now are seeking support among the peasants by posing as the defenders of acquired property when, on the contrary, in accordance with their doctrines, they are preparing to strip you of everything if their maneuvers succeed."

Communist leader Duclos in a speech made in Lyon that evening (11th) belittled the government's financial program and agricultural policy, saying they were "remarkably linked with the policy of United States reaction, which is intended to ruin French industry, agriculture, and trade."

#### De Gaulle Proposal for Management and Workers' Associations

At the time that Premier Schuman was defending his anti-inflation tax measure in the National Assembly, General de Gaulle--speaking to workers in the mining and industrial center of Saint Etienne--suggested the abolition of trade unions and the establishment in their stead of free associations of management and workers in all industries. Ultimately, if his plan were adopted, representatives of labor would sit at the same time as representatives of local assemblies in a "Council of the Republic," forming a type of corporative state. De Gaulle asserted that such "free association"

was necessary for the economic recovery of France, and would serve to professionalize industry and trade unionism and cleanse them of "politics." He stressed that "we have had enough of the opposition between the different groups of producers that is poisoning and paralyzing French activity," and added: "The truth is that the economic recovery of France, and at the same time the advancement of the workers, is bound up with the problem of association which we shall have to solve." He indicated that according to his plan, in any group of industrial enterprises, workers and employers alike would under organized arbitration decide as equals their conditions of work and remuneration. "They will set these down in such a way that from the employer down to the hand laborer, they will receive under the law, scaled according to hierarchy, a remuneration in proportion to the output of the enterprise."

According to the de Gaulle proposals, once the "moral order" was re-established, and all the elements of production grouped together without a struggle between the classes, then the representatives "should be incorporated in the state." He further pointed out that this type of association could be extended to the nations of Western Europe.

#### Establishment of "Third Force" Committee

The so-called third force, representing the Schuman government from the political angle and those opposed to Communism and de Gaullism in the ideological sphere, became an official, organized body on January 11--with the establishment of a provisional committee and the formation of local committees throughout the country. At a meeting in Paris for "third force" adherents (11th), speakers representing the MRP, the Socialist party, and trade unions urged that France maintain a foreign policy midway between that of the United States and the Soviet Union and, on the domestic level, to choose neither Communism nor the policy offered by de Gaulle. Trade union leaders declared that they had not indicated support for the "third force," inasmuch as trade unionism was a nonpolitical movement.

#### Devaluation of the Franc

On January 25, announcing a momentous decision made despite the disapproval of the International Monetary Fund and the Government of Great Britain, France released a communiqué which stated its intention--beginning the next day (26th)--to devalue the franc on two different rates of exchange. The communication stated that "in the present state of the French economy, it appeared impossible to the government to define a new exchange rate satisfactory for all transactions abroad, commercial or non-commercial." The official exchange rate of 119 francs to the dollar was replaced in part by a new rate of 214.392 francs, and to a greater extent by a variable rate to be settled upon by the operation of supply and demand in a nearly free money market (including the franc, the dollar, and the Portuguese escudo--with the possibility of adding other currencies such as the Swiss franc if the governments concerned were agreeable). The details of the newly decreed decision follow:

"(1) The rates at which the Exchange Stabilization Fund buys or sells monies against francs are increased by a bonus, starting January 26, 1948. The bonus applies to all transactions and is uniform for all



monies. Its amount is established at 80 per cent of the rates practiced hitherto. The new franc rates thereby come out to 214.392 for one dollar and 864 francs for one pound sterling. The parities of the home-land franc (of Continental France) with the other currencies of the franc zone are not modified except as regards the franc of the French territories of the Pacific as well as the French rupee. Their rate in relation to the dollar and the pound sterling remains unchanged.

"(2) There will be created, immediately, beside the official market, a free market on which the United States dollar and the Portuguese escudo can be quoted. The features of the free market will be as follows:

"(A) The market will be supplied: By half of the proceeds of the exports, the other half being ceded to the Exchange Stabilization Fund on the basis of the latter's rates; by all monies' having a different origin, notably monies acquired from non-commercial payments, monies corresponding to movements of capital into France from abroad, monies paid by foreign tourists.

"(B) The resources of the market will be employable: To pay for imports of commodities, to the exclusion of some categories deemed essential, to pay for which the Exchange Stabilization Fund will continue to deliver currency at the rates it practices; for all other payments or movements of capital from France abroad to the exclusion of certain payments by the state.

"(C) The market thus defined will be a free market, in the sense that the currencies dealt with thereon will be established freely by the play of offer and demand. The monetary authorities shall see to it only, first, that all currency that is to be turned over to them is indeed turned over; second, that no purchases be made except those conforming to the regulations authorized by the Exchange Office under the usual conditions--that is to say, as regards imports, only upon delivery of (French Government import) licenses. ...."

Regret was expressed by the French "that the International Monetary Fund, although approving certain important parts of the plan, did not consider itself able to accept it in entirety." The conviction was stated that in taking the stand it did, and "in thus preparing the stabilization of French economy," the French Government was "making the best possible contribution to the reconstruction of Western Europe, in conformity with the report of the sixteen nations." Chairman of the Fund, Camille Gutt, released a statement simultaneously with the French communiqué, in which he pointed out that "the French Government [had] engaged in full and frank consultations with the ... Fund regarding a plan for exchange adjustment, which would require the approval of the Fund." Gutt continued that "the Fund agreed that a change in the par value of the franc was necessary, and indicated that it was prepared to concur in a devaluation of the franc to a realistic rate which would be applicable to transaction in the currencies of all members of the Fund." He explained:

"The Fund gave careful consideration to the proposal to establish a market in convertible currencies.... The Fund had no desire to be rigid or doctrinaire in its approach to the matter, particularly in view of the abnormalities of the present situation. ... The Fund was not, however, able to agree to the inclusion of a market with fluctuating rates of any part of the proceeds of exports, as in its judgement this entailed the risk of serious adverse effects on other members of the Fund, without being necessary to achieve the trade objectives sought by the French authorities.

"The Fund felt there would be scope for competitive depreciation in the application by one country of a fluctuating rate on exports to one area while other rates remained stable and other countries maintain the parities agreed with the Fund. Such a system, operating in an important trading country, would encourage trade distortions and might cast an unwarranted doubt on the real strength of many currencies through the apparent discount applied to them in the French system. ..."

The statement expressed regret that France had decided "to go forward with its proposal" despite Fund objections, but said it would "continue to work with France in seeking a modification of these exchange practices in order to meet French needs within the framework of the international monetary arrangements established by the Fund Agreement."

According to a joint French-British statement of the 25th, the French Finance Minister, René Mayer, prior to the French decrees had "exchanged views in London (on January 16 and 17) with the Chancellor of the Exchequer about the monetary project of the French Government. It was also disclosed that "these conversations were continued in the course of the visit which Sir Stafford Cripps made to Paris" on the 23rd and 24th. This exchange of views did not, however, result in agreement. The French presented their proposals to the International Monetary Fund, explaining that "the solution chosen by them is the only one capable of meeting the exigencies of the economic situation," and pointing out that "it does not constitute in its intention the permanent monetary system of France, but a step toward the stabilization of the currency on the basis of a single exchange rate, which is the object of the financial and economic policy of the Government." Great Britain likewise, according to the joint statement, presented its views to the Fund and "associated with the statement by the International Monetary Fund." The French-British announcement pointed out that despite differences "the two Governments [had] the same objects in view," and that "in this spirit of mutual comprehension, close cooperation between the technical services has been decided upon and will begin at once."

On the 26th, a spokesman of the U. S. Department of State said that his country "heartily [approved] an adjustment in the franc at the present time," although it did not approve all details of the French devaluation decrees. It was stated that the United States regretted that complete agreement had not been reached with the Fund, but suggested that "sight should not be lost of the great progress which this procedure indicates has been made in establishing the ... Fund as the chosen vehicle for the formulation and evaluation of foreign exchange policy." It was further added:



"This Government has endeavored throughout this period of consultation to view with the utmost sympathy the great efforts which the French Government is taking to establish stabilization of the French economy, and is confident that the French Government will apply its new foreign exchange measures in close collaboration with members of the Fund, so as to reduce to the minimum any adverse consequences."

On the 27th the head of the International Monetary Fund stated that although the unilateral action of France might be "annoying," it was not discouraging for the future of international co-operation in currency control. Government officials in Washington were equally hopeful, a high Treasury official saying that he was "reasonably optimistic that the worst predictions [would not] be borne out."

Schuman defended his devaluation of the franc before the National Assembly on the 26th, and justified it on the ground of economic necessity. He declared that it conformed to policies leading to internal stabilization as contained in the report of the Committee on European Recovery, and to Article XIV of the Statutes of the Monetary Fund. Sir Stafford Cripps told the House of Commons on the same day that Great Britain would not devalue the pound sterling, and that it would continue close collaboration with France. Cripps said: "We regard this result [devaluation of the franc] as unfortunate, but nevertheless we are as anxious as are the French Government that this difference of opinion should have no adverse effect upon our general relations and cooperation... ."

Secretary of State Marshall declared on January 28 that the devaluation of the franc was in accord with the general agreement of the 16 member countries of the European Recovery Program to stabilize their currencies and budgetary positions, and he asserted that it would have no effect on ERP requirements. The Secretary of State explained that British and Fund objections to the move had been misunderstood--that these were based on the technical methods of putting devaluation into effect through different values of the franc and its use for exports. He further pointed out that these technical details would have no effect on the ERP because it was based on commodities and dollars.

Continuing his fight in the French Parliament, Schuman won a vote on the 27th (despite a Socialist revolt within the Cabinet) for immediate discussion of his bill to create a free gold market--the one phase of the devaluation plan that required legislative approval. Debate opened in the Assembly on the 28th, and on the 30th a bill--which included in its provisions the right to withdraw more than one third of the currency circulation represented by bank notes of 5,000-franc denomination--was passed by a vote of 307 to 286 with Socialist support. Schuman stressed to the Assembly that acceptance of this measure was essential for the continuance of his government. Due to this fact, the Socialists were induced to support a measure of which they disapproved in order to avoid a change in government and consequent political and economic upheaval.

In general, the bill was expected to reduce currency in circulation, to act as a brake on spending, and to aid in ending the black market. The Finance Minister and the Premier (in the course of debate on the measure) had promised that prompt reimbursement would be made to all small

holders of bank notes. Larger holders were to be blocked for a period of four months at the longest, while an investigation was being conducted as to the origin of the notes and the needs of the holders.

Later in the day (30th), after sharp debate, the National Assembly by a vote of 308 to 242 passed the bill to create a free gold market and to legalize the hitherto illegal possession of foreign securities by the French, if these assets were repatriated and their owners were taxed 25 per cent of the value. This bill completed the series of measures designed by the Schuman government to gain maximum benefit from the devaluation of the franc.

## 2. Italy

### Communist Attacks on the Government

The sixth annual congress of the Italian Communist party opened in Milan on the 4th, with delegates from foreign countries also in attendance. Italian Communist leader Togliatti, in an address of welcome, asserted that the de Gasperi government had "sold itself to the United States and the Vatican," and boasted: "Reactionary provokers should remember that we have behind us tens of thousands of youths who learned to use arms as Partisans and are ready to use them if necessary." "Nevertheless," he added, "we do not threaten recourse to violence." The British delegate on January 7 expressed to the meeting his sympathy with Italian Communists in their struggle against the "reactionary" government in their country. He said that in Great Britain, too, the Labor government was capitulating to big business and "dancing to the jerk of the leading strings with which they are tied to the American imperialists."

Still another phase of Communist activity was evidenced through the Communist party newspaper, Unita, and the Left-Wing Socialist paper, Avanti, when these organs (on the 7th) reported demonstrations in Palermo, Milan, Bologna, Mantua, and Cremona by soldiers protesting against a government ruling that they should remain armed until after the general election in April. By the 10th the Communist offensive against de Gasperi was once again in full force after the holiday lull. As the party congress ended, Togliatti urged unity of action between Socialists and Communists. He told the closing session that the principal job of the Communist party in Italy was to organize a "popular democratic front," and he accused the Christian Democrats (de Gasperi's party) of attempting to postpone the election for the purpose of keeping the country in a state of confusion and discord.

The Foreign Minister, Count Carlo Sforza, in a speech before the national congress of the Republican party in Naples on January 17 answered Communist charges that the United States intended enslavement of Europe through the Marshall plan. Sforza said that Europe should not fear "American hegemony" but rather:

"Far from believing in the danger of an American hegemony over Europe, I sometimes fear that the United States, tired of so many paltry accusations and insinuations, may end by returning to isolationism and turn her back upon Europe. That would be an intellectual and moral disaster for the United States but it would be an even



graver disaster for the whole of Europe, even for that part that is beyond the so-called 'iron curtain.'"

Left-Wing Socialists opened their 26th annual congress in Rome on the 19th. Socialist leader Pietro Nenni welcomed delegates from Bulgaria, Czechoslovakia, Belgium, the Netherlands, Poland, Spain, and other European countries. During the course of the sessions (which closed on the 23rd), a motion calling for a close electoral alliance with the Communist party was approved--receiving 525,332 votes. The acceptance of this motion, which provided that in the national election Communists and Socialists would form a People's Front and present a single ticket, was a victory for Nenni who had presented the measure. Ivan Matteo Lombardo had introduced an opposition resolution, urging the Socialist party to assert its independence and calling the Marshall plan Europe's only hope of salvation. This was defeated by the Nenni measure, as was also a third motion endorsing the People's Front but providing for separate Socialist and Communist tickets.

In an effort to deal with continuing Communist strikes and disorders, the committee for public order met in Rome on the 21st under the chairmanship of the Vice Premier to consider measures to combat such activity.

#### British-Italian Economic Talks

Talks between British and Italian officials on economic and financial matters that had been in progress in London since January 12 closed on the 28th--with the British unsuccessful in their attempt to persuade Italy to give up its dual rate for the lira. The effect of the disparity between sterling and the dollar on the Italian exchange market on the position of sterling in general was discussed, as well as the question of trade between the two countries. It was agreed that improvement in the technical position of sterling in Italy was a matter of mutual interest. Measures were also agreed upon to hasten the release of Italian property in Great Britain and the payment of prewar Italian debts to persons in Great Britain--including arrears due on Italian loans.

### 3. Greece

#### Increase in Armed Strength

While the Greek Army continued action in early January to eliminate the guerrilla threat to Konitsa, steps were taken to increase the effectiveness of the service. On the 5th, a three-hour conference between Dwight P. Griswold, chief of the American Aid Mission, Premier Themistocles Sophoulis and Vice Premier Constantin Tsaldaris resulted in United States agreement for an addition of 12 thousand to the Greek Regular Army, and in increase of the National Guard to 100 battalions. On the same day the United States authorized Great Britain to transfer to the Greek forces any lend-lease military equipment in the possession of the British in Greece. On the following day it was announced that an additional \$15 million in aid funds would be transferred from civilian needs and allocated to the Greek Army and National Guard, since study had shown "such aid was essential if the Greek Government was effectively to combat the guerrilla forces, thus maintaining Greece's independence and national integrity."

In accordance with the agreement announced on November 17 by Foreign Minister Tsaldaris by which American Army officers were to assist the Greek Army in planning operations against the guerrillas, groups of U. S. Army personnel arrived in Athens during January to join field units in an advisory capacity. On the 29th the U. S. Army announced that it would increase both military personnel and military expenditures in Greece. Further, while the original aid program called for \$150 million each for economic and military assistance, present plans were for \$173 million for military purposes and \$127 million for economic aid. On the same day, Maj. Gen. Livesay asserted that the Greek Army "as now equipped [was] superior in every respect to the [guerrillas] and capable of carrying out successful operations against them." He added that the total volume of military supplies and equipment unloaded at Greek ports under the aid program up to January 20 amounted to 50 shiploads aggregating 90,076 tons.

#### Anglo-American Action on "Free" Greek Regime

The United States and Great Britain revealed on January 7 that direct verbal notice had been given to the Bulgarian and Yugoslav Governments warning against recognition of the Markos "free" Greek regime. It was not possible to give like notice to Albania because the United States and Great Britain have no representatives in that country. The United States announcement pointed out:

"The United States representatives in Bulgaria and Yugoslavia have conveyed to the Governments to which they are accredited the views of this Government with regard to the announcement by certain Greek Communists that they had formed a so-called government.

"In conformity with the Acting Secretary's statement to the press of Dec. 30, United States representatives are making clear that it is the view of the United States that any recognition of the Markos junta would be clearly contrary to the principles of the United Nations Charter, and in the case of Greece's northern neighbors would constitute open disregard of the recent recommendations of the United Nations Assembly. It is believed here that this warning, coupled with the recent defeat of the guerrillas at Konitsa by the Greek army, has lessened any immediate prospect of recognition."

#### United Nations Special Balkan Committee

Two interim reports by the Special Committee on the Balkans were made public during January. The first, adopted on December 31, 1947 and released on January 9, reviewed the Committee's first month of operation. It pointed out that its work would have been more effective if delegations from Poland and the Soviet Union had been present and if the Committee had "had the advantage of the co-operation which the Governments of Albania, Bulgaria and Yugoslavia have either refused or have not yet made available." The report concluded:

"The Committee is so far unable to report any evidence of bilateral compliance with any of the recommendations of the General Assembly. Following the announcement of the establishment of the



'Provisional Democratic Greek Government', it is closely considering the results which may flow from any act of association with that 'Government' on the part of any of the governments to whom the recommendations of the General Assembly are addressed. ...

"Bearing in mind that its functions with respect to those recommendations are to observe the compliance of the four governments concerned therewith ... the Committee has felt bound to consider now how far such association may make their implementation impossible, and, consequently, whether this might not result in developments which would impel it to recommend the convocation of a special session of the General Assembly...."

The second report, adopted on January 10 and released on the 19th, disclosed that after an observation trip to the Yanina-Konitsa area had been reviewed, the Committee had "reached the conclusion that aid in the form of logistical support [was] being furnished from Albania to guerrillas operating on Greek territory"--a fact considered by the Committee "to be contrary to the spirit of the resolution of the General Assembly of 21 October 1947." Further proof of noncompliance with the recommendations of the Assembly by Albania was found in a telegram from that country refusing to co-operate with the Committee and declaring it to be "illegal and non-existent" because "the establishment of that Committee and the tasks assigned to it are a violation of the United Nations Charter and of the principle of unanimity of the five great Powers."

#### Measures to Stem Inflation

Excessive inflation added further to the problems confronting Greece during January. By the 9th, demand for gold had raised the price of the British pound to 224,000 drachmas on the gold exchange. A joint communiqué, issued by Premier Themistocles Sophoulis and Foreign Minister Constantin Tsaldaris, demanded authority from the U. S. Aid Mission to sell British gold sovereigns in order to halt the depreciation of the drachma. On the following day this permission was granted. During the evening of the 10th, after a meeting of United States, British, and Greek financial experts, Tsaldaris declared: "The Government insists on its intervention policy, and the best evidence thereof is the fall in the sovereign rate this afternoon. ... The whole economic problem was discussed in this evening's meeting, and on the basis of the conclusions reached a bill fixing the Government's economic, financial and currency policy will be drafted and submitted for approval to Parliament... ."

Further meetings resulted in an announcement on the 19th by Dwight P. Griswold, head of the Aid Mission, that the Mission had arranged (through the Department of State) that the Federal Reserve Bank of New York should release gold that had been pledged by Greece to secure a loan. Of a total of \$10.8 million held by the Reserve Bank, the immediate release of \$2 million for shipment to Greece was considered by Griswold to be "ample to maintain relative stability"--until the necessary stability was furnished by the economic reforms and other measures to curb inflationary pressures agreed on by the Greek Government and the Mission. Griswold added:

"It must not be overlooked that economic recovery will continue to demand full use of resources to provide the basic requirements of the Greek people. The gold will help stabilize prices, but it cannot replace needed imports of food and other essential supplies, which must be obtained from Greece's own foreign exchange resources supplemented by the American aid. ... I ... explained to the Premier and Deputy Premier that political crises brought about by party jockeying for position can only cause, both at home and abroad, a lack of public confidence in Greece's stability and can themselves create inflationary pressures. ..."

#### Herter Report

A "Report on Greece" by a subcommittee of the House Select Committee on Foreign Aid (so-called Herter Report series) was made public on January 27. The Report said that the civil war dominated all other factors in the current Greek crisis, and that possession of Greek strategic facilities by a communist government would increase pressure on Turkey, Italy, and the Middle East. Consequently, it was declared, the United States could not withdraw from the country, for such withdrawal "would greatly weaken the determination of constitutional forces resisting communism elsewhere." Recommended measures to aid economic recovery included greater output and use of lignite and hydroelectric power to reduce coal imports and conserve foreign exchange, mineral resources development, agricultural expansion, and industrial development. It was stated that aid should not be administered on a gift basis but should be considered as "a contribution to the total pool of resources available to the recipient country." The Report concluded with the declaration that the primary test for the continuance of any future aid program should be "the success of the recipient government in restoring economic and monetary stability while at the same time maintaining individual freedom."

#### 4. States in the Soviet Orbit

##### Growing Network of Eastern European Alliances

In a series of developments during January, the signing of additional defense pacts brought nearer completion the network of treaties among the Communist-led regimes of Eastern Europe. On the 9th, the Yugoslav National Assembly approved and ratified agreements of friendship and mutual aid with Bulgaria, Hungary, and Rumania. In mid-January, Bulgarian Premier Georgi Dimitrov signed a pact of mutual assistance with Rumania--the first such alliance between two former enemy States to come into force since the close of World War II. This treaty was ratified by the Bulgarian Parliament on the 26th. Two days earlier (24th), the Premiers of Hungary and Rumania had signed a twenty-year friendship and military alliance on behalf of their respective governments. It was said to commit both signatories to "support and encourage all movements which aim to exclude instigations of aggression and to secure peace all over the world." The Rumanian Premier, Petru Groza, observed that the "family of eastern European free nations" had become strong enough and had "enough energy to have even atomic energy."

While in Bucharest to sign the mutual assistance treaty with Rumania, Georgi Dimitrov, Bulgarian Communist Premier, declared on January 17



that the Eastern European states in the Soviet orbit planned--when the time was "ripe"--the formation of a federation of states as allies of the Soviet Union. Dimitrov asserted that the first step would be a customs union, and said that the series of treaties (such as he was in Rumania to sign) was preliminary to the ultimate objectives. Concerning the final goal, he stated: "... Our peoples of the popular democracies ... will decide whether it shall be a federation or confederation of states, and they will also decide the moment when it shall take the shape of a state." Bulgaria, Albania, Rumania, Yugoslavia, Hungary, Poland, Czechoslovakia, and even Greece were cited by the premier as future members of the federation--these countries to work with the Soviet Union to a great extent and, "if possible," to engage in trading with the United States, Great Britain, and France "on the principle of complete equality."

Speaking of the projected closer relationships among the Danubian states, Dimitrov explained:

"When in yesterday's speech I called these treaties alliances, I was not throwing out a chance word. I mean alliances, and we are allies. That is the sense applied to the treaties Bulgaria has signed with Albania, Yugoslavia and Rumania, and it is the meaning of the treaties she will sign with Czechoslovakia, Hungary and Poland. We are allies as we are allies de facto with the Soviet Union, with which no treaty has been signed. We intend to cooperate economically and on an intense scale among ourselves and with the Soviet Union. We intend to coordinate our plans so as to increase our economic potential and bring it up to the level of international exchange. We will prepare and conclude the customs union ... a difficult project. We want to trade with the Western powers, but not with the international trusts or cartels. ..."

The premier stressed Communist mergers with Socialist parties, and indicated that these were being carried out "everywhere except in Italy and France, where they meet with great difficulties," adding:

"But in France, Blum and Ramadier who are in the service of American imperialism, will secede and then the true Socialists, those who remain, will join the Communist party. We must make people understand what the Truman Doctrine is and tell them the truth about that dark Marshall Plan. ... We do not want either the honey or the sting of the American bee--and by the American bee I do not mean the American people but the American trusts."

Word from Warsaw on the 21st indicated that Polish official quarters were unwilling to comment on Dimitrov's suggestions concerning the formation of a Danubian federation and customs union, of which Poland would be a member. It was feared that such steps would increase separatism from the western countries and lessen the sovereignty of the Slav nations to which they have attached so much importance.

Pravda opposed the Dimitrov proposals on January 28, saying that although it had published his statement, this was not an indication "that the editors ... endorse Comrade Dimitrov's attitude toward a federation or customs union." In this rebuke to one of the top Communist leaders in

Europe, it was stated that the countries under consideration "do not need a problematical and artificial federation or customs union," but instead "the consolidation and protection of their independence and sovereignty through the mobilization and organization of the domestic democratic forces, as stated in the declaration of the nine Communist parties (Cominform)." In Prague, the Pravda answer to the Bulgarian Premier was seen as backing Czechoslovakian unwillingness to sign a defensive alliance committing it to the defense of Bulgaria against all possible aggressors, and not merely Germany. It was also regarded as a gesture of Soviet friendship to a country that has not wanted the Danubian and Balkan regions developed under the leadership of Dimitrov and Marshall Tito of Yugoslavia.

On the 29th, a Bulgarian official news agency issued a statement that neither Dimitrov nor any other cabinet official "ever has thought or thinks of the creation of an Eastern bloc under any form, although the apostles and creators of the Western bloc purposely attempt to pervert the real attitude of our Government." The statement explained that Dimitrov on the 17th had not been discussing a customs union, but had merely been pointing out that the basis for such a union had been made possible by the treaties that had been concluded between Bulgaria and Yugoslavia, Rumania, and Albania. A diplomatic source in Belgrade upheld the Bulgarian Premier, saying that the plan was "problematic and far-fetched." In Albania, Premier Enver Hoxha assured the Parliament that his country was joined with Yugoslavia and Bulgaria "until death," but made no specific reference to the proposed federation.

#### a) Bulgaria

##### Warning to Parliamentary Opposition

Premier Georgi Dimitrov on January 12, prior to his departure for a visit to the capital of Rumania, warned the nine Social Democrats that comprised the opposition in the Bulgarian parliament not to "follow in the footsteps" of "allies, foreign agents and Bulgarian enemies." Dimitrov urged them to remember the fate of Nikola Petkov, the Agrarian opposition leader who was executed in September 1947, declaring: "If you are not wiser, you will get from the nation such a lesson as you will remember as far as St. Peter." This reprimand came as a result of opposition to the budget. The Premier also revealed that Petkov might have been saved if the United States and Great Britain had not intervened on his behalf--explaining that "when it came to the question of blackmail and interference in the rights of our sovereign people, the death sentence had to be carried out."

#### b) Czechoslovakia

##### Communist Activities

The Communists and Left Wing Socialists engineered the passage of a decree by the cabinet on January 7 that authorized the Communist-controlled Ministry of Internal Trade and the Socialist-controlled Ministry of Industry virtually to end the private distribution of textiles--a vital part of commerce in that country. The decree was termed temporary, but the parties in opposition conceded that it was a defeat for them and another



breach in the compromise between the state and private enterprise that had been the basis of postwar Czechoslovak economy and society.

The Socialist party's central newspaper revealed on the 9th another front on which the Communists were operating to end the influence of the more moderate groups, when it announced that "political terror" was "again on the program in factories." This organ charged that in recent works council elections, "questionable practices were used, which were calculated to upset the democratic form of election and to enforce on the voters a selection that [was] not free." It added that "the methods of voting [were] controlled, which [was] practically equivalent to direct intimidation." In turn, at a Communist armed forces meeting, the general secretary of the party and chairman of the parliamentary defense committee said: "It is necessary to cleanse the army of reactionaries, Munichites, and elements unfriendly to the republic." He affirmed:

"Now our republic leans on its alliance with the Slav states, especially with the Soviet Union and therefore to slander the Soviet means to commit treason against the republic. As before, the Munich reactionaries are attempting to give us up to imperialist powers. This is shown, for example, in their attitude toward the Marshall Plan and in the German question, where they share the attitude of Western reactionary powers."

#### c) Finland

##### Projected Resignation of Premier

Reports from Helsinki on the 23rd indicated that the Leftist Premier, Mauno Pekkala, disturbed by criticism of his coalition government, planned to resign--the government to be taken over by a cabinet of experts until the national elections could be held in July. It was believed that if the Pekkala cabinet did remain, the Soviet Union intended to complete a Soviet-Finnish mutual defense and friendship pact while the present government and diet were in office.

##### Porkkala Enclave

On January 25, it was disclosed in Helsinki that a week earlier the Soviet Union had withdrawn from the Finnish Government the newly established maritime and land passage privileges through the Soviet-held Porkkala enclave. The instructions covering the withdrawal of these privileges were issued by Soviet Minister Lt. Gen. G. M. Savonenko, and were said to be for the intention of laying stress on Soviet dissatisfaction at the opposition of the majority of the Finns to a defense alliance between the two states.

#### d) Poland

##### Purge of Communist Party

Word from Warsaw on January 7 indicated that the Communist party had abandoned its two-year mass recruiting drive and had commenced a purge

of "alien and superfluous" elements in the party--which had grown to a membership of over 800,000 through a policy of acceptance of all applicants. Vice Premier Gomulka stated that the quantity and quality of the Communist party cadres were the essential conditions for the advancement of communism in Poland. Party leaders decided that 800,000 was a sufficient membership, and that about 40,000 would be dropped in the purge--keeping the group at a constant figure by the new policy of selective recruiting.

### Foreign Policy Declaration

The Director of Information of the Foreign Ministry outlined on January 9 an eight-point foreign policy program for Poland--preceded by a resolution urging the extension and strengthening of relations with other Slav states. The statement reiterated the oneness of Poland with the Soviet Union in international affairs, and set forth for Poland such aims as opposition to a division of the world and the defense of the Eastern concept of democracy. Two points related to Germany. Brig. Gen. Grosz (the Director of Information) declared that Poland would be in opposition to the principle of priorities for the reconstruction of Germany over other victims of World War II, and to all attempts to "instigate German revisionary tendencies." He added that everyone was already aware that such an attempt could not influence the "just solution" that had been achieved for the western frontiers of Poland. Grosz also promised increased Polish economic relationships with nations "willing to cooperate on a basis of mutual respect of economic sovereignties." The Polish Government had said that the Marshall Plan would not permit such co-operation.

### Proposed Economic Co-operation with Czechoslovakia

A closer co-ordination of economic relationships in Eastern Europe was highlighted in an announcement on January 11 that the Polish and Czechoslovak Governments had under study a project for partial integration of their industries. One phase of such integration had already been approved by technicians of the two countries--a jointly owned electric power plant on Polish territory, to operate with Polish coal and Czechoslovak machinery, and expected to furnish power to both countries. A Polish official declared that such intergovernmental agreements allowed "a much more stable development of trade relations." A joint standardization committee, in session for several months, reported one consequence of its work had been agreement between the two nations on the standardization of the manufacture of electric appliances, machinery, and parts.

### Status of Anglo-Polish Military Alliance

On January 26, a Polish Foreign Office spokesman said that Poland considered the Anglo-Polish military alliance legally valid but outmoded by the "new political situation." The spokesman also charged that the Bevin proposal for a Western European bloc was "dictated" by the United States, and he asserted that such a grouping would aid "neither the cause of peace nor Europe's development and independence." It was stated, however, that Poland was ready to contract alliances with all countries "that grant what Poland needs--immediate assistance in case of attack by Germany." When



queried as to whether pacts signed by Poland would apply only to German aggression, the answer was given: "We are not living on the moon--only the Germans can attack Poland." Asked if an eastern bloc would be formally established as a consequence of the Bevin proposal, he said: "We will wait and see what happens," and added that Bevin's remarks about Poland disclosed "irritation with the fact that Poland is reconstructing according to her own pattern and without being subordinated to plans contradictory to Polish sovereignty and interests."

#### e) Rumania

##### Departure of King Michael

King Michael who had abdicated from the Rumanian throne on December 30 left the country with a small personal staff on January 3. He proceeded to Lausanne, Switzerland--where his secretary said that the abdication had been "for political reasons and political reasons only." The secretary added that negotiations with the Rumanian Government were under way concerning the disposition of King Michael's property in that country.

##### Reorganization of the Government

The functions of the former king were taken over by a presidium of five. Three of the number were Communists, and the other two were men who had served in official capacities under the Communists during the past three years. On the 9th, the government published a decree that gave to the new presidium all the powers formerly invested in the throne. With this body to expedite the decrees of the Politburo, the Communist party in Rumania had found a means of escape from all constitutional obstacles. From the time of the King's visit to England, the Communists had carried out purges in the Army and Foreign Office--with an even more severe one in process in the diplomatic service under the direction of Minister of Foreign Affairs, Ana Pauker--where more than 600 diplomats and employees of the Foreign Office had been discharged. The Communist Minister of Justice undertook similar action in his sphere, with abolition of the bar and the dissolution of the Chamber of Lawyers. An order issued required all lawyers to re-register, making possible the elimination of all those unacceptable to the Communist authorities.

#### f) Yugoslavia

##### Demand for Release of Gold

Since 1945 sporadic negotiations have been carried on between the Governments of the United States and Yugoslavia concerning gold shipped from Yugoslavia prior to the German invasion, and subsequently frozen by the United States Government. On January 4 in Belgrade, Premier Tito and U. S. Ambassador Cavendish Cannon, reopened conversations on the \$60 million to \$70 million in frozen funds. The Premier suggested that all but \$20 million be released to the present government for use in the purchase of machinery and other industrial equipment in the United States.

On the following day (5th) in Washington the Yugoslav Ambassador, Sava N. Kosanovitch, disclosed that a formal note had been delivered to

In accordance with the agreement announced on November 17 by Foreign Minister Tsaldaris by which American Army officers were to assist the Greek Army in planning operations against the guerrillas, groups of U. S. Army personnel arrived in Athens during January to join field units in an advisory capacity. On the 29th the U. S. Army announced that it would increase both military personnel and military expenditures in Greece. Further, while the original aid program called for \$150 million each for economic and military assistance, present plans were for \$173 million for military purposes and \$127 million for economic aid. On the same day, Maj. Gen. Livesay asserted that the Greek Army "as now equipped [was] superior in every respect to the [guerrillas] and capable of carrying out successful operations against them." He added that the total volume of military supplies and equipment unloaded at Greek ports under the aid program up to January 20 amounted to 50 shiploads aggregating 90,076 tons.

#### Anglo-American Action on "Free" Greek Regime

The United States and Great Britain revealed on January 7 that direct verbal notice had been given to the Bulgarian and Yugoslav Governments warning against recognition of the Markos "free" Greek regime. It was not possible to give like notice to Albania because the United States and Great Britain have no representatives in that country. The United States announcement pointed out:

"The United States representatives in Bulgaria and Yugoslavia have conveyed to the Governments to which they are accredited the views of this Government with regard to the announcement by certain Greek Communists that they had formed a so-called government.

"In conformity with the Acting Secretary's statement to the press of Dec. 30, United States representatives are making clear that it is the view of the United States that any recognition of the Markos junta would be clearly contrary to the principles of the United Nations Charter, and in the case of Greece's northern neighbors would constitute open disregard of the recent recommendations of the United Nations Assembly. It is believed here that this warning, coupled with the recent defeat of the guerrillas at Konitsa by the Greek army, has lessened any immediate prospect of recognition."

#### United Nations Special Balkan Committee

Two interim reports by the Special Committee on the Balkans were made public during January. The first, adopted on December 31, 1947 and released on January 9, reviewed the Committee's first month of operation. It pointed out that its work would have been more effective if delegations from Poland and the Soviet Union had been present and if the Committee had "had the advantage of the co-operation which the Governments of Albania, Bulgaria and Yugoslavia have either refused or have not yet made available." The report concluded:

"The Committee is so far unable to report any evidence of bilateral compliance with any of the recommendations of the General Assembly. Following the announcement of the establishment of the



'Provisional Democratic Greek Government', it is closely considering the results which may flow from any act of association with that 'Government' on the part of any of the governments to whom the recommendations of the General Assembly are addressed. ...

"Bearing in mind that its functions with respect to those recommendations are to observe the compliance of the four governments concerned therewith ... the Committee has felt bound to consider now how far such association may make their implementation impossible, and, consequently, whether this might not result in developments which would impel it to recommend the convocation of a special session of the General Assembly... ."

The second report, adopted on January 10 and released on the 19th, disclosed that after an observation trip to the Yanina-Konitsa area had been reviewed, the Committee had "reached the conclusion that aid in the form of logistical support [was] being furnished from Albania to guerrillas operating on Greek territory"--a fact considered by the Committee "to be contrary to the spirit of the resolution of the General Assembly of 21 October 1947." Further proof of noncompliance with the recommendations of the Assembly by Albania was found in a telegram from that country refusing to co-operate with the Committee and declaring it to be "illegal and non-existent" because "the establishment of that Committee and the tasks assigned to it are a violation of the United Nations Charter and of the principle of unanimity of the five great Powers."

#### Measures to Stem Inflation

Excessive inflation added further to the problems confronting Greece during January. By the 9th, demand for gold had raised the price of the British pound to 224,000 drachmas on the gold exchange. A joint communiqué, issued by Premier Themistocles Sophoulis and Foreign Minister Constantin Tsaldaris, demanded authority from the U. S. Aid Mission to sell British gold sovereigns in order to halt the depreciation of the drachma. On the following day this permission was granted. During the evening of the 10th, after a meeting of United States, British, and Greek financial experts, Tsaldaris declared: "The Government insists on its intervention policy, and the best evidence thereof is the fall in the sovereign rate this afternoon. ... The whole economic problem was discussed in this evening's meeting, and on the basis of the conclusions reached a bill fixing the Government's economic, financial and currency policy will be drafted and submitted for approval to Parliament... ."

Further meetings resulted in an announcement on the 19th by Dwight P. Griswold, head of the Aid Mission, that the Mission had arranged (through the Department of State) that the Federal Reserve Bank of New York should release gold that had been pledged by Greece to secure a loan. Of a total of \$10.8 million held by the Reserve Bank, the immediate release of \$2 million for shipment to Greece was considered by Griswold to be "ample to maintain relative stability"--until the necessary stability was furnished by the economic reforms and other measures to curb inflationary pressures agreed on by the Greek Government and the Mission. Griswold added:

"It must not be overlooked that economic recovery will continue to demand full use of resources to provide the basic requirements of the Greek people. The gold will help stabilize prices, but it cannot replace needed imports of food and other essential supplies, which must be obtained from Greece's own foreign exchange resources supplemented by the American aid. ... I ... explained to the Premier and Deputy Premier that political crises brought about by party jockeying for position can only cause, both at home and abroad, a lack of public confidence in Greece's stability and can themselves create inflationary pressures. ..."

### Herter Report

A "Report on Greece" by a subcommittee of the House Select Committee on Foreign Aid (so-called Herter Report series) was made public on January 27. The Report said that the civil war dominated all other factors in the current Greek crisis, and that possession of Greek strategic facilities by a communist government would increase pressure on Turkey, Italy, and the Middle East. Consequently, it was declared, the United States could not withdraw from the country, for such withdrawal "would greatly weaken the determination of constitutional forces resisting communism elsewhere." Recommended measures to aid economic recovery included greater output and use of lignite and hydroelectric power to reduce coal imports and conserve foreign exchange, mineral resources development, agricultural expansion, and industrial development. It was stated that aid should not be administered on a gift basis but should be considered as "a contribution to the total pool of resources available to the recipient country." The Report concluded with the declaration that the primary test for the continuance of any future aid program should be "the success of the recipient government in restoring economic and monetary stability while at the same time maintaining individual freedom."

## 4. States in the Soviet Orbit

### Growing Network of Eastern European Alliances

In a series of developments during January, the signing of additional defense pacts brought nearer completion the network of treaties among the Communist-led regimes of Eastern Europe. On the 9th, the Yugoslav National Assembly approved and ratified agreements of friendship and mutual aid with Bulgaria, Hungary, and Rumania. In mid-January, Bulgarian Premier Georgi Dimitrov signed a pact of mutual assistance with Rumania--the first such alliance between two former enemy States to come into force since the close of World War II. This treaty was ratified by the Bulgarian Parliament on the 26th. Two days earlier (24th), the Premiers of Hungary and Rumania had signed a twenty-year friendship and military alliance on behalf of their respective governments. It was said to commit both signatories to "support and encourage all movements which aim to exclude instigations of aggression and to secure peace all over the world." The Rumanian Premier, Petru Groza, observed that the "family of eastern European free nations" had become strong enough and had "enough energy to have even atomic energy."

While in Bucharest to sign the mutual assistance treaty with Rumania, Georgi Dimitrov, Bulgarian Communist Premier, declared on January 17



that the Eastern European states in the Soviet orbit planned--when the time was "ripe"--the formation of a federation of states as allies of the Soviet Union. Dimitrov asserted that the first step would be a customs union, and said that the series of treaties (such as he was in Rumania to sign) was preliminary to the ultimate objectives. Concerning the final goal, he stated: "... Our peoples of the popular democracies ... will decide whether it shall be a federation or confederation of states, and they will also decide the moment when it shall take the shape of a state." Bulgaria, Albania, Rumania, Yugoslavia, Hungary, Poland, Czechoslovakia, and even Greece were cited by the premier as future members of the federation--these countries to work with the Soviet Union to a great extent and, "if possible," to engage in trading with the United States, Great Britain, and France "on the principle of complete equality."

Speaking of the projected closer relationships among the Danubian states, Dimitrov explained:

"When in yesterday's speech I called these treaties alliances, I was not throwing out a chance word. I mean alliances, and we are allies. That is the sense applied to the treaties Bulgaria has signed with Albania, Yugoslavia and Rumania, and it is the meaning of the treaties she will sign with Czechoslovakia, Hungary and Poland. We are allies as we are allies de facto with the Soviet Union, with which no treaty has been signed. We intend to cooperate economically and on an intense scale among ourselves and with the Soviet Union. We intend to coordinate our plans so as to increase our economic potential and bring it up to the level of international exchange. We will prepare and conclude the customs union ... a difficult project. We want to trade with the Western powers, but not with the international trusts or cartels. ..."

The premier stressed Communist mergers with Socialist parties, and indicated that these were being carried out "everywhere except in Italy and France, where they meet with great difficulties," adding:

"But in France, Blum and Ramadier who are in the service of American imperialism, will secede and then the true Socialists, those who remain, will join the Communist party. We must make people understand what the Truman Doctrine is and tell them the truth about that dark Marshall Plan. ... We do not want either the honey or the sting of the American bee--and by the American bee I do not mean the American people but the American trusts."

Word from Warsaw on the 21st indicated that Polish official quarters were unwilling to comment on Dimitrov's suggestions concerning the formation of a Danubian federation and customs union, of which Poland would be a member. It was feared that such steps would increase separatism from the western countries and lessen the sovereignty of the Slav nations to which they have attached so much importance.

Pravda opposed the Dimitrov proposals on January 28, saying that although it had published his statement, this was not an indication "that the editors ... endorse Comrade Dimitrov's attitude toward a federation or customs union." In this rebuke to one of the top Communist leaders in

Europe, it was stated that the countries under consideration "do not need a problematical and artificial federation or customs union," but instead "the consolidation and protection of their independence and sovereignty through the mobilization and organization of the domestic democratic forces, as stated in the declaration of the nine Communist parties (Cominform)." In Prague, the Pravda answer to the Bulgarian Premier was seen as backing Czechoslovakian unwillingness to sign a defensive alliance committing it to the defense of Bulgaria against all possible aggressors, and not merely Germany. It was also regarded as a gesture of Soviet friendship to a country that has not wanted the Danubian and Balkan regions developed under the leadership of Dimitrov and Marshall Tito of Yugoslavia.

On the 29th, a Bulgarian official news agency issued a statement that neither Dimitrov nor any other cabinet official "ever has thought or thinks of the creation of an Eastern bloc under any form, although the apostles and creators of the Western bloc purposely attempt to pervert the real attitude of our Government." The statement explained that Dimitrov on the 17th had not been discussing a customs union, but had merely been pointing out that the basis for such a union had been made possible by the treaties that had been concluded between Bulgaria and Yugoslavia, Rumania, and Albania. A diplomatic source in Belgrade upheld the Bulgarian Premier, saying that the plan was "problematic and far-fetched." In Albania, Premier Enver Hoxha assured the Parliament that his country was joined with Yugoslavia and Bulgaria "until death," but made no specific reference to the proposed federation.

#### a) Bulgaria

##### Warning to Parliamentary Opposition

Premier Georgi Dimitrov on January 12, prior to his departure for a visit to the capital of Rumania, warned the nine Social Democrats that comprised the opposition in the Bulgarian parliament not to "follow in the footsteps" of "allies, foreign agents and Bulgarian enemies." Dimitrov urged them to remember the fate of Nikola Petkov, the Agrarian opposition leader who was executed in September 1947, declaring: "If you are not wiser, you will get from the nation such a lesson as you will remember as far as St. Peter." This reprimand came as a result of opposition to the budget. The Premier also revealed that Petkov might have been saved if the United States and Great Britain had not intervened on his behalf--explaining that "when it came to the question of blackmail and interference in the rights of our sovereign people, the death sentence had to be carried out."

#### b) Czechoslovakia

##### Communist Activities

The Communists and Left Wing Socialists engineered the passage of a decree by the cabinet on January 7 that authorized the Communist-controlled Ministry of Internal Trade and the Socialist-controlled Ministry of Industry virtually to end the private distribution of textiles--a vital part of commerce in that country. The decree was termed temporary, but the parties in opposition conceded that it was a defeat for them and another



breach in the compromise between the state and private enterprise that had been the basis of postwar Czechoslovak economy and society.

The Socialist party's central newspaper revealed on the 9th another front on which the Communists were operating to end the influence of the more moderate groups, when it announced that "political terror" was "again on the program in factories." This organ charged that in recent works council elections, "questionable practices were used, which were calculated to upset the democratic form of election and to enforce on the voters a selection that [was] not free." It added that "the methods of voting [were] controlled, which [was] practically equivalent to direct intimidation." In turn, at a Communist armed forces meeting, the general secretary of the party and chairman of the parliamentary defense committee said: "It is necessary to cleanse the army of reactionaries, Munichites, and elements unfriendly to the republic." He affirmed:

"Now our republic leans on its alliance with the Slav states, especially with the Soviet Union and therefore to slander the Soviet means to commit treason against the republic. As before, the Munich reactionaries are attempting to give us up to imperialist powers. This is shown, for example, in their attitude toward the Marshall Plan and in the German question, where they share the attitude of Western reactionary powers."

#### c) Finland

##### Projected Resignation of Premier

Reports from Helsinki on the 23rd indicated that the Leftist Premier, Mauno Pekkala, disturbed by criticism of his coalition government, planned to resign--the government to be taken over by a cabinet of experts until the national elections could be held in July. It was believed that if the Pekkala cabinet did remain, the Soviet Union intended to complete a Soviet-Finnish mutual defense and friendship pact while the present government and diet were in office.

##### Porkkala Enclave

On January 25, it was disclosed in Helsinki that a week earlier the Soviet Union had withdrawn from the Finnish Government the newly established maritime and land passage privileges through the Soviet-held Porkkala enclave. The instructions covering the withdrawal of these privileges were issued by Soviet Minister Lt. Gen. G. M. Savonenko, and were said to be for the intention of laying stress on Soviet dissatisfaction at the opposition of the majority of the Finns to a defense alliance between the two states.

#### d) Poland

##### Purge of Communist Party

Word from Warsaw on January 7 indicated that the Communist party had abandoned its two-year mass recruiting drive and had commenced a purge

of "alien and superfluous" elements in the party--which had grown to a membership of over 800,000 through a policy of acceptance of all applicants. Vice Premier Gomulka stated that the quantity and quality of the Communist party cadres were the essential conditions for the advancement of communism in Poland. Party leaders decided that 800,000 was a sufficient membership, and that about 40,000 would be dropped in the purge--keeping the group at a constant figure by the new policy of selective recruiting.

### Foreign Policy Declaration

The Director of Information of the Foreign Ministry outlined on January 9 an eight-point foreign policy program for Poland--preceded by a resolution urging the extension and strengthening of relations with other Slav states. The statement reiterated the oneness of Poland with the Soviet Union in international affairs, and set forth for Poland such aims as opposition to a division of the world and the defense of the Eastern concept of democracy. Two points related to Germany. Brig. Gen. Grosz (the Director of Information) declared that Poland would be in opposition to the principle of priorities for the reconstruction of Germany over other victims of World War II, and to all attempts to "instigate German revisionary tendencies." He added that everyone was already aware that such an attempt could not influence the "just solution" that had been achieved for the western frontiers of Poland. Grosz also promised increased Polish economic relationships with nations "willing to cooperate on a basis of mutual respect of economic sovereignties." The Polish Government had said that the Marshall Plan would not permit such co-operation.

### Proposed Economic Co-operation with Czechoslovakia

A closer co-ordination of economic relationships in Eastern Europe was highlighted in an announcement on January 11 that the Polish and Czechoslovak Governments had under study a project for partial integration of their industries. One phase of such integration had already been approved by technicians of the two countries--a jointly owned electric power plant on Polish territory, to operate with Polish coal and Czechoslovak machinery, and expected to furnish power to both countries. A Polish official declared that such intergovernmental agreements allowed "a much more stable development of trade relations." A joint standardization committee, in session for several months, reported one consequence of its work had been agreement between the two nations on the standardization of the manufacture of electric appliances, machinery, and parts.

### Status of Anglo-Polish Military Alliance

On January 26, a Polish Foreign Office spokesman said that Poland considered the Anglo-Polish military alliance legally valid but outmoded by the "new political situation." The spokesman also charged that the Bevin proposal for a Western European bloc was "dictated" by the United States, and he asserted that such a grouping would aid "neither the cause of peace nor Europe's development and independence." It was stated, however, that Poland was ready to contract alliances with all countries "that grant what Poland needs--immediate assistance in case of attack by Germany." When



queried as to whether pacts signed by Poland would apply only to German aggression, the answer was given: "We are not living on the moon--only the Germans can attack Poland." Asked if an eastern bloc would be formally established as a consequence of the Bevin proposal, he said: "We will wait and see what happens," and added that Bevin's remarks about Poland disclosed "irritation with the fact that Poland is reconstructing according to her own pattern and without being subordinated to plans contradictory to Polish sovereignty and interests."

#### e) Rumania

##### Departure of King Michael

King Michael who had abdicated from the Rumanian throne on December 30 left the country with a small personal staff on January 3. He proceeded to Lausanne, Switzerland--where his secretary said that the abdication had been "for political reasons and political reasons only." The secretary added that negotiations with the Rumanian Government were under way concerning the disposition of King Michael's property in that country.

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#### f) Yugoslavia

##### Demand for Release of Gold

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On the following day (5th) in Washington the Yugoslav Ambassador, Sava N. Kosanovitch, disclosed that a formal note had been delivered to

Under Secretary of State Lovett on the 2nd, requesting the release of these Yugoslav funds. The communication stated that the Tito government was willing to compensate United States nationals for properties nationalized in Yugoslavia--the principal issue that had been holding up settlement--but "firmly refused to concede that the question of the unfreezing of the monetary reserves and the other assets of the National Bank is contingent upon previous agreement on ... other questions." The Ambassador also declared that he was placing the item on the agenda for the consideration of the Economic and Social Council at its next session, scheduled for February 2. A Yugoslav note delivered to the Council on the 27th charged that the United States was "obstructing the economic reconstruction of Yugoslavia" by refusing to return the gold.

The Department of State made public a note on the 14th replying to Yugoslavia, in which it was asserted that an early settlement of assets could be reached "if the Yugoslav Government is disposed to provide the United States Government and its nationals the adequate and effective compensation for losses and expenditures to which they are justly entitled." The allegations charged in the Yugoslav communication were refuted--although this had already been done in oral conversations with Kosanovitch. Concerning Yugoslavia's "part in the economic reconstruction of Europe," the note said, "the Yugoslav Government has not only declined to participate in, but has even actively attacked, the common European recovery program."

#### Shifts in the Government

On January 8 the eight-man Yugoslav presidium accepted a recommendation made by Premier Tito for the dismissal of three cabinet ministers and the appointment of four others. Tito also presented in writing a proposal "for reorganization of the federal apparatus of the state administration in connection with the needs of further economic reconstruction." This measure was approved unanimously. Treaties of friendship and mutual aid with the Bulgarian, Hungarian, and Rumanian Governments were approved and ratified on the 9th by the National Assembly.

### 5. Iraq

#### Anglo-Iraqi Treaty

A twenty-year treaty of friendship and alliance replacing the Anglo-Iraqi Treaty of 1930, was signed on January 15 by Foreign Minister Ernest Bevin of Great Britain and Prime Minister Sayed Saleh Jabr of Iraq. It returned ownership of the air bases of Habbaniya and Shaibah to the Iraqi Government--although Britain was granted continued use of them until the time when peace treaties with all former enemy countries should come into force. One provision of the agreement was that should "either party become engaged in war" the other party would "immediately come to his aid as a measure of collective defence." It was further agreed that Great Britain would sell arms, ammunition, ships, and airplanes to Iraq and would provide instruction for Iraqi military forces. Also included was a clause which stated that nothing in the agreement should abridge the rights or obligations of either party under the United Nations Charter or any other "existing international agreements." The Iraqi Prime Minister pointed out that



the Covenant of the League of Arab States (signed March 22, 1945) and the Saadabad Pact between Iran, Iraq, Turkey, and Afghanistan (signed July 8, 1937) were considered among the "existing international agreements" to which the government of Iraq attached "particular importance."

However, demonstrations of protest against the treaty were immediately staged by students in Baghdad and other Iraqi cities. After several days of rioting, Regent Abdul Illah summoned a meeting of former prime ministers and other political leaders on January 21. After a five-hour session the group reached the conclusion that "the new treaty does not realize the national aims of Iraq," and the Regent promised that there would be "no ratification of any treaty that does not realize the country's rights and national demands." Prime Minister Saleh Jabr, recalled from London, explained the terms of the pact during a four-hour meeting of the Cabinet on the 26th. The following day the Cabinet resigned, and Jabr fled to Trans-Jordan. A new Cabinet was formed on the 29th by a former president of the Iraqi Senate, Mohammed el-Sadr, with three former prime ministers among its members. Two days later the new Minister of Foreign Affairs, Hamdi Pachachi, declared:

"Members of the Cabinet already had expressed their views on the treaty before accepting their portfolios. The treaty will be dealt with in the light of those views and will undoubtedly conform to the wishes of the Iraqi people. Our internal policy is to allay public feeling and restore calm throughout the country through the realization of national aspirations."

## 6. China

### Kowloon Incident

On January 5, the Hong Kong Government evicted for sanitary reasons about two thousand Chinese squatters from Kowloon City (on the mainland opposite Hong Kong) and destroyed their shacks. This action brought to the foreground a long-standing grievance of the Chinese, who claimed administrative rights over the area, and resulted in anti-British demonstrations which spread to Nanking, Shanghai, and Canton. On the 16th, the British Consulate and other buildings in Canton were burned and several British subjects injured. This incident followed publication of a demand by the Chinese Government for the release of two Chinese nationals jailed by the Hong Kong authorities in connection with the Kowloon affair. On the 20th, the British presented a note to China claiming full compensation for the damage done to British property in Canton. The Chinese, while expressing regret over the occurrences in Canton, handed an official communiqué to the British Embassy in Nanking on the following day protesting against the eviction of the squatters and demanding compensation. A week later (27th) the British Foreign Office published the text of a further note to the Chinese Government protesting against "exaggerated and misleading" reports "which for weeks past had been sedulously fanning the spark of anti-British agitation." The Chinese Government was asked to assure that the British viewpoint was "placed before the public in China," so that "a satisfactory solution" could be found.

## Progress of Civil War

In the continuing conflict within China, fighting was reported during the month in several provinces of north and central China. On January 11, following the southward drive of the Communists and the murder by "bandits" of three women missionaries (two Americans and one Finn), United States consulates notified all missionaries north of the Yangtze valley in central China that there was danger of cities and towns of the area being occupied by the Communists and that they should be ready to leave if they were not prepared to live in Communist-occupied territory. At the same time, Chinese military authorities declared that on account of the Communist threat all the Yangtze delta area, with the exception of Shanghi, Nanking, Wuhu, and the main cities along the Shanghi-Nanking railway, was henceforth "out of bounds" to foreigners.

Word from Nanking on the 12th indicated that the Nationalist Command had decided to shorten its lines in Manchuria, abandoning attempts to hold Changchun, Kirin, and Szeping kai--and concentrating its forces on the defense of Mukden and the west Liaoning corridor. By the 22nd, it was announced that the U. S. Department of State was preparing to shut down the American consulate in Changchun since it had been almost completely isolated by Communist forces. However, at the close of the month it appeared that the three northern cities were still being held by Nationalist forces.

## 7. India - Pakistan

### Security Council Action on Kashmir Dispute

On January 2 the president of the Security Council called a meeting for the 6th to consider the India-Pakistan dispute over the provinces of Kashmir and Jammu--which together form the Kashmir State. On the same afternoon (2nd), the position of India was stated through United Nations channels. The Indian representative indicated that his government was bringing the case up under Article 35 of the Charter that made provision for the presentation to the Council of any situation whose continuance was likely to endanger the maintenance of international peace and security. The Council was asked to urge Pakistan to "put an end immediately" to assisting Kashmir and Jammu by allowing invaders to cross Pakistan territory, by permitting the use of its country as a base of operations, by permitting raiders to get military equipment, transport, and supplies from Pakistan, and by encouraging the practice of Pakistan officers in training, guiding, and otherwise helping the raiders. The Indian Dominion warned that if Pakistan did not comply with these requests, it might be "compelled, in self defense to enter Pakistan territory, in order to take military action against the invaders."

Before India and Pakistan had been established as dominions, Jammu and Kashmir had been signatories to treaties with the British crown--which controlled their foreign relations and was responsible for their defense. On August 15, 1947, at the time of partition, these states acquired the right to join either dominion. On October 26 Maharajah Sir Hari Singh, then head of Kashmir, appealed to India for military aid and asked that the two states be allowed to accede to Indian rule.



The Pakistan attitude was made clear in a statement by Premier Liaquat Ali Khan on January 3, when he charged that India was "out to destroy Pakistan." Ali Khan said that the allegation that 100,000 men were receiving military training in Pakistan was "absolutely false," and he declared that Pakistan had "nothing to hide." He added that he was willing to have "an impartial tribunal go into all charges, whether against Pakistan by India or against India by Pakistan, and to help find a peaceful solution to the dispute." The Pakistan Premier concluded by making the following counter charges:

"I charge the Government of India, first, with never having wholeheartedly accepted the partition scheme. Her leaders paid lip service to it merely in order to get British troops out of the country.

"Second, India is out to destroy Pakistan, which Indian leaders still persist in regarding as a part of India itself.

"Third, I charge India with systematic sabotage against the implementation of partition by the stoppage of such essential requirements as coal and rail transport, with the deliberate withholding of Pakistan's share of arms and equipment, and with the wholesale massacre of Moslems, designed toward one aim, namely the destruction of Pakistan.

"Fourth, I charge the forcible occupation of Junagadh and other states in Kathiawar which had acceded to Pakistan, as well as the fraudulent procurement of the accession of Jammu and Kashmir, which are acts of hostility against Pakistan, whose destruction is India's immediate objective."

The Security Council met on the 6th and agreed to consider the Indian complaint against Pakistan, but postponed the opening of discussions until the Foreign Minister of Pakistan arrived from Karachi. The U. S. Ambassador to India, speaking in New York City on the 7th, warned that this dispute might cause the downfall of the two dominions, but expressed hope that both would view "the stakes [as] too great for failure," and the belief that "wisdom, statesmanship and good-will [would] be assured."

On January 12, as the Security Council was preparing to resume sessions on the case, Mohandas K. Gandhi, 79-year-old Congress party leader, announced at his daily prayer meeting in New Delhi that he would start a fast for intercommunity unity on the following day that would end "when and if I am satisfied that there is a reunion of hearts of all communities, brought about without any outside pressure but from an awakened sense of duty."

In New York City on the next day (13th) Sheik Mohamed Abdullah, Hindu head of the interim government of Kashmir, stated the point of view of the governing element of Kashmir in the following words:

"India is more advanced politically than Pakistan, and India has always supported our cause. It is not a matter of religion. Our economic interests are all with India because all our trade is with India. If there is any doubt, we are prepared to have a referendum on the question, and we were considering the question when Pakistan attacked."

When the Security Council reopened consideration of the case on the 15th, the head of the Indian delegation urged immediate action. He pointed out that under different circumstances India would not have been at all hesitant in handling the situation "in an exclusively military way" and in dealing "with the invaders and raiders in the way they deserve to be dealt with." He indicated, however, that as a member of the United Nations, his country preferred to avoid the risk of an armed conflict with its neighbor.

On the 16th, the Pakistan Foreign Minister, Sir Mohammed Zafrullah Khan (who had arrived in New York), presented a statement to the Council confined to a declaration on the background of the Kashmir question. Sir Mohammed said that both governments were in agreement that the situation was urgent and grave. However, he pointed out that the issue raised by India was limited to the Kashmir dispute, whereas Pakistan was raising the whole complex of matters that might endanger peace. He declared that it would be a "waste of precious time" if the Security Council should succeed in solving the "tangle of Kashmir" and then the dominions should "start fighting" about other points of controversy. Sir Mohammed especially emphasized the part played in Kashmir by the small but very important Sikh community, and asserted that fighting there had been provoked by Sikh attacks against Moslems. He stated that 93.5 per cent of the Kashmir population and 62 per cent of the Jammu population were Moslem--these together comprising the Kashmir State in which 78 per cent of the nearly four million persons were Moslem. In another charge, he made the assertion that Maharajah of Kashmir evidently believed that the "killing off" of thousands of Moslems and the jailing of their leaders would influence the Moslem majority not to resist accession to India.

Two major developments occurred during the Council meeting of the 17th. One concerned a request by the Pakistan Foreign Minister for the Council to send an international police force to stop the outbreaks in Kashmir. He said that Pakistan was "prepared to accept a force drawn solely from the Commonwealth" [British Commonwealth of Nations]. Sir Mohammed also revealed that a Pakistani note had been sent to Prime Minister Attlee of Great Britain, asking that country to support a proposal for the United Nations to undertake the tasks of impartial administration and to send "an international police force to maintain law and order." The other development was the adoption by the Security Council of a resolution (9 in favor, with the Soviet Union and the Ukraine abstaining), calling upon "both the Government of India and the Government of Pakistan to take immediately all measures within their power ... to improve the situation and to refrain from making any statements and from doing or causing to be done or permitting any acts which might aggravate the situation." The resolution requested each government "to inform the Council immediately of any material change in the situation which occurs or appears to either of them to be about to occur while the matter is under consideration by the Council and consult with the Council thereon."

The following day (18th), as the president of the Security Council met with the two disputants in closed session, Gandhi broke his fast after a peace pledge had been signed by 200,000 people in New Delhi and after assurances from Hindu, Sikh, and Moslem leaders. At a prayer meeting, Gandhi said he had acted on the "pledge and counsel" of friends from India and Pakistan,



who had promised him "complete unbroken friendship" between "all the communities." Hindu and Sikh leaders agreed to the following seven-point peace program: (1) Moslems to be free to hold their annual religious fair at Mehrauli; (2) Delhi Moslems who had fled to Pakistan to be permitted to return; (3) Moslem mosques that had been converted to Hindu temples to be restored; (4) New Delhi to be made safe for Moslems; (5) Moslems to be guaranteed safe passage on railways; (6) the economic boycott against the Moslems to be abolished; and (7) Moslem districts still extant in New Delhi to have protection.

In closed meetings (18th), the two dominions took under consideration a proposal made by the president of the Security Council, under the terms of which a United Nations three-member mediation group would act to help in the settlement of the Kashmir dispute. It was suggested that this commission be similar to the one that negotiated the truce in the Indonesian case--to be composed of two member nations selected by each of the dominions, with a third, chosen by the other two members, to act as chairman. During the discussions (held by the Council president with the two disputants) each restated the conditions under which it considered the conflict could be ended. It was said that India was insistent that the United Nations confine its activities to a cessation of the hostilities in Kashmir, and was agreeable to an inquiry commission if its terms of reference were thus delimited. Pakistan, in contrast, urged a complete hearing on the origins of the conflict, and was said to have laid down three stipulations: (1) that the Security Council or its commission should investigate all the issues involved in the present conflict and examine the allegations that Indian troops had driven Moslems from the territory; (2) that if a plebiscite were conducted, to determine if Kashmir wanted to join India or Pakistan, it should not be carried out under the jurisdiction of the present government; and (3) that Indian troops be withdrawn from Kashmir--their number being estimated by the Pakistani at three divisions and eight air squadrons. In return, Pakistan declared its willingness to assume responsibility for the withdrawal of native raiders and Moslem supporters.

At a further closed meeting in the office of the president of the Security Council on the 19th, the two dominions agreed to submit to the mediation of a three-member commission. It was said that this group would be instructed to examine India's charges that Pakistan was backing Moslem raids in Kashmir, and Pakistan charges that India was guilty of genocide and systematic aggression.

The Security Council on the 20th again took under consideration the India-Pakistan controversy. The president introduced a resolution providing for the three-member commission agreed upon by the disputants the day before. This resolution, setting up the commission and instructing it to proceed to Kashmir "as quickly as possible" to investigate the situation, was passed by a vote of 9 to 0, with the Soviet Union and the Ukraine abstaining because of opposition to the method by which the commission would be selected. According to the measure, the commission was to be "composed of representatives of three members of the United Nations, one to be selected by India, one to be selected by Pakistan, and the third to be designated by the two so selected." The Council adjourned until the 22nd so that the conferees could meet again and discuss terms for a permanent settlement. On the next evening (21st) word came from Lake Success that the closed talks

had failed, and that the Security Council would be faced with a demand by Pakistan for an immediate investigation into all phases of the dispute. The head of the Pakistan delegation sent a letter to the Council, in which he warned of a "very acute crisis."

On the 22nd, the Security Council met for three hours, but accomplished nothing beyond the adoption of a "broadened" agenda which listed the dispute as the "India-Pakistan question" rather than the earlier designation of "the Jammu and Kashmir case." The British delegate, Philip J. Noel-Baker (who had arrived from London to sit in on the case) appealed to the two dominions to resume negotiations. In the January 23 meeting of the Council, the Indian delegation, in a speech lasting over four hours, replied to charges of Pakistan that the former was guilty of genocide. However, as a consequence of the British appeal, India and Pakistan agreed on the 24th to resume direct negotiations, and the Security Council gave them the task of drawing up specific proposals for achieving peace in Kashmir. A private session between the delegations of the two dominions scheduled for the 26th was, however, postponed until the Indian delegation could receive instructions from New Delhi.

At the January 28 meeting of the Security Council, president van Langenhove of Belgium reported on private conversations he had been holding with the Indian and Pakistani representatives. He said that the two countries had agreed to exchange written proposals, and that he had, on the 24th, submitted a draft resolution as a possible basis for discussion. Van Langenhove told the Council that an understanding had been reached on three points: (1) the question of the accession of Jammu and Kashmir to India or Pakistan was to be determined by a plebiscite; (2) the plebiscite was to be carried out under conditions that would assure impartiality; (3) to achieve this result, the plebiscite should be under the direction of the United Nations. Written proposals, he added, were submitted on the 27th by the two disputants. India suggested that fighting be stopped and normal conditions reinstated--estimating that about six months would be needed for the restoration of normalcy after the end of conflict. India also recommended that during this period Indian troops should stay in Kashmir to afford protection against outside attacks and to ensure internal law and order. In addition, it was suggested that the emergency administration be converted into a council of ministers, with Sheikh Abdullah as prime minister; that a national assembly be called, a national government set up, and a plebiscite held under United Nations aegis. Pakistan, in turn, recommended the establishment of an impartial interim administration in Kashmir, the withdrawal of outside armed forces and trespassers, the return of persons who had been compelled to flee, and the holding of a plebiscite.

The Belgian delegate introduced two resolutions in the Council on the 29th. One suggested that a plebiscite be organized, held, and supervised by that body in Kashmir and Jammu on the question of accession to one of the two dominions, and the second related to the "cessation of acts of hostility and violence" in the disputed territory. Representatives from Canada, China, France, Syria, Great Britain, and the United States supported the proposals, but the Indian delegate said that they "did not command the assent" of his country--as it still insisted that an end be put to the fighting before any other step was taken. Seven of the 11 countries on the



Security Council supported the Belgian resolutions. The president thereupon moved to put the Council on record as being in favor of a plebiscite, and proposed a second motion instructing the projected mediation committee of the Council to do all it could to bring an end to the hostilities. U. S. representative Austin declared (in answer to India) that although the end of fighting was the primary objective of the Council, the plebiscite and the cease-fire order were none the less aspects of the same problem.

### Assassination of Gandhi

Consideration of the Indian-Pakistani dispute in the Security Council was brought to a halt on January 30 by news of the assassination of Gandhi in New Delhi. While walking through the Birla House gardens to a pergola in which he daily delivered a prayer-meeting talk, the 78-year-old Mahatma was shot by a Hindu extremist. India was left shocked and fearful of the future--fearful of possible extremist outrages. Tributes to the fallen "holy man" came from the heads of governments over the whole world.

## B. TREATMENT OF NON-SELF-GOVERNING PEOPLES

### 1. Burma

#### Proclamation of Burmese Republic

After 122 years of British rule, Burma became the second large area in the past six months (India being the first in August) to receive its independence from the United Kingdom. On January 4 the British Governor, Sir Hubert Rance, in a ceremony at Government House in Rangoon handed over authority to the first President of the Burmese Republic, Sao Shwe Thaik. The Premier, Thakin Nu, read congratulatory messages from King George VI, British Prime Minister Attlee, and Foreign Secretary Bevin. In a presidential proclamation, the new president urged: "Let us rejoice that this independence did not come as the result of armed conflict, but as the fruit of friendly negotiations with a great nation whose political bonds were replaced by mutual consent with the stronger bonds of friendship and good will."

The Constituent Assembly had, on the 3rd, confirmed the appointment of Thakin Nu as Prime Minister. He had acted as de facto head of the cabinet from the time of the assassination of U Aung Sang in July 1947. The names of those appointed to the new cabinet were announced--the majority being members of the Premier's Anti-Fascist Peoples' Freedom League.

#### Ratification of Treaty with the United Kingdom

In its first action as a sovereign legislature the Parliament ratified the treaty with Great Britain despite opposition from the seven Communist members in the lower house of 255, who described the document as "sacrificing the interests of the Burmese masses to alien capitalist domination." According to the terms of the treaty, the United Kingdom was permitted to maintain military missions in Burma. Provision was also made for the transfer of 37 vessels to the Burmese Navy and the cancellation of \$60 million in Burmese debts to Great Britain.

## 2. Malaya

### Formation of Federation

Rulers of nine Malayan States signed a treaty on January 21 with Great Britain--setting up the Federation of Malaya for the (approximately) five million inhabitants populating the peninsula. The Crown Colony of Singapore alone remained under British rule outside the Federation. The Malayan rulers also were signatories to treaties providing for the constitutional development of their states. The new organization provided that there would be a British High Commissioner and a British Resident Commissioner in each state--to exercise advisory functions only. Provisions were made for each head of state (heretofore absolute) to prepare written constitutions, and to hold elections in due course for the central legislature of the Federation and for the state councils. The Federation was scheduled to become operative on February 1 after the issuance of an order in council by the British Governor and Commander in Chief of the Malayan Union.

## 3. Indo-China

### French Negotiations with Former Annamite Emperor

In London on January 4, Bao Dai, the former Emperor of Annam who had abdicated in August 1945 in favor of the Viet Nam Republic, disclosed that he would be willing to return to the throne--but not as a puppet of France or of a Communist minority. He indicated that he thought it possible for Viet Nam to remain within the French Union only on the basis of eventual equality with France, and declared: "The time has come for Viet Nam to assure itself of its part in the concert of nations, to become a member of the United Nations and to conduct in a democratic manner its own affairs." In Geneva, on the 8th, Bao Dai's secretary issued a communiqué in which it was stated that Bao Dai would be willing to head an independent state of Annam within the French Union. Emile Bollaert, French High Commissioner for Indo-China, had met with Bao Dai a day earlier (the 7th) to discuss the organization of a provisional government. These conversations were scheduled to continue. The communiqué revealed that Bao Dai had proposed to Bollaert that the new state should be empowered to protect French cultural and economic interests and, in exchange, receive a kind of dominion status.

The French Cabinet on the 10th approved a declaration in the form of a proposal to Bao Dai. This called for a special meeting of those Viet Nam officials who had not fought against the French, in order to consider conditions under which peace could be restored in Indo-China. The declaration was given to Bollaert to present to Bao Dai.

The High Commissioner proceeded to Geneva, and engaged in talks with Bao Dai lasting a week. At their conclusion, a statement was released which expressed the hope that an "equitable and just" solution might be found for Indo-China that would safeguard French interests and at the same time be acceptable to the Viet Nameese. There were indications that the former emperor was willing to accept French policy on the two most debatable issues--responsibility for foreign policy and control of the armed forces. Bollaert returned to Paris for further conversations, and was scheduled to leave for the Far East on the 20th to meet again with Bao Dai on February 13.



The chief of the Viet-Nam delegation to France was secretly arrested in Paris on January 29, apparently charged with inciting acts to endanger French territory and the publication of false news. This arrest was believed to have been the result of a complaint by Bao Dai on the French policy of allowing Viet-Nam officials to freely carry on propaganda activities in Paris.

#### 4. Indonesia

##### Interim Government Established

The formation of an interim federal government forerunner to a sovereign United States of Indonesia, was announced in a Netherlands East Indies Government communiqué on January 4. This decision was expressed in the form of a resolution that had been adopted at a meeting of delegates of 10 non-Republican territories with the Netherlands Premier, Louis J. M. Beel, in Batavia. An invitation was immediately broadcast to the Indonesian Republican Government to join in this federation. In the meantime, the Committee of Good Offices had been meeting informally with the Indonesian and Netherlands delegations and with the ministers of the Netherlands Government, and had been preparing an interim report for the Security Council.

The Netherlands Government installed the interim government on the 13th. It consisted of seven representatives of Dutch-controlled areas in the East Indies, but had no representation from the Indonesian Republic. In a Netherlands Government communiqué, this group was termed "a preliminary Federative Council for Indonesia," whose functions were to draft (in co-operation with Acting Governor General van Mook) a constitution for "a preliminary Federative Government of Indonesia." The next day (14th), the Republican (opposition) spokesman to the United Nations threatened, at Lake Success, to bring the Netherlands Government before the Security Council for creating a "puppet interim government." He accused the Dutch of raising a smoke-screen to frustrate the proposals for peace made by the Committee of Good Offices, and said he was compelled to disclose parts of the forthcoming report of that Committee because the Netherlands Government was ignoring the will of the Committee. He said the Committee recommended: (1) that the assistance of the Committee be used in working out and signing an agreement for the settlement of the political dispute in the East Indies; (2) that both the Republic and the Netherlands end any action "relating directly or indirectly to the organization of states or relation between states in Java, Sumatra, and Madura." The Republican representative declared the purpose of the interim government to be an evasion of the proposals of the Committee, and an attempt to create the "false impression" that the Republic was unwilling to co-operate with the United Nations. "It is," he said, "old Dutch colonial rule masquerading in the inappropriate dress of democracy." On the other hand, it was stated, his government had agreed to the report of the Committee of Good Offices as a foundation for discussion, even though "some of its recommendations were not wholly favorable to our cause." "In contrast to Indonesia's attitude," he concluded, "the Dutch have consistently sought to muddle the issue by insisting upon amendments that would have the effect of negating the proposals."

In an address to the Netherlands States General on January 13 upon his return to The Hague, Beel gave assurance that the new federation in Indonesia would be pushed to fulfillment as speedily as possible, and he pointed out that discussions on the "cease-fire" agreement could not be continued indefinitely. Speaking on progress in the negotiations with the Indonesian Republic, the Premier said that "informal contact maintained with the Commission of Good Offices of the United Nations has led to a proposal in a concrete form, with which we agree, for the implementation of the armistice as well as the basis for further political discussions." He revealed that the Commission had "gone to Jogjakarta to lay these proposals before the Republic"--commenting that "the Republic must now declare itself." The Premier added: "We declare ourselves willing to include the Republic as a unit in the federation provided it is prepared to accept the principles of a new political order."

Debate opened in the Netherlands parliament on the Indonesian situation, and by the 16th had focused largely on three issues: (1) opposition members insisted that the body of three who would perform the functions of the Lieutenant Governor General should, in accord with the constitution, be established by parliamentary act and not by royal decree; they also maintained that the interim government should be approved by the parliament; (2) the status and functions of the Netherlands-Indonesian Union under the throne were discussed, and the question as to where sovereignty would lie was raised, and (3) the opposition expressed objections to the inclusion in the interim government of members of the present Republican Government. It was doubted if a new "cease-fire" agreement would be recognized, in view of the failure of the earlier one. Minister of Overseas Territories, Jan Jonkman, told the parliament that if the Dutch were ever obliged to use force in the East Indies again, it would be with the full knowledge and approval of the Committee of Good Offices. Jonkman also announced an increase in the number of seats proposed in the Federal Indonesian cabinet from nine to 12 in order to include more members from the Eastern Indonesian archipelago--and a consequent increase in Republican seats from three to four, but with no increase in the proportion of one-third. This left the same cause for disapproval on the part of the Republicans.

In Batavia, the Good Offices Committee announced on the 16th that the disputants had agreed to truce proposals and that an agreement would be signed the next day. Van Mook declared that this agreement would mean the immediate resumption of trade between Netherlands and Indonesian-controlled territories. The truce was signed on the 17th aboard the United States Navy transport "Renville", anchored off Batavia. After 11 weeks of negotiation the Committee of Good Offices had gained its first objective of ending the fighting in the East Indies--inasmuch as, simultaneously with the signing, "cease-fire and stand-fast orders" were issued. The agreement provided for the establishment of demilitarized zones in general conformity with the "status quo lines" and for placing military assistants of the Committee at the services of both parties to assume responsibility for determining "whether any incident requires inquiry by the higher authorities of either or both parties." In addition, a group of 12 principles of political settlement was signed. The main point included the following:



"(1) The assistance of the Committee of Good Offices would be continued in working out an agreement for the Islands of Java, Sumatra and Madura to be based on the principles of the Linggadjati Agreement;

"(2) Neither party (Netherlands or Indonesia) may prevent the free expression of 'popular movements looking toward political organizations' which are in accord with the Linggadjati Agreement. In this connection, it was agreed that each party [would] guarantee the freedom of assembly, speech and publication provided that this guarantee [was] not construed so as 'to include the advocacy of violence or reprisals';

"(3) Decisions concerning changes in the administration of any territory will be made only with the full and free consent of the peoples concerned and when freedom from coercion has been assured;

"(4) Provisions will be made for the gradual reduction of the armed forces of both parties;

"(5) As soon as practicable after signing the Truce Agreement, economic activity, trade and communications will be restored through mutual cooperation;

"(6) Provision should be made for free elections, which will take place after a six months period of uncoerced and free discussion and consideration of vital issues. This discussion will begin not more than a year after the signing of the Truce. The purpose of the elections will be for the people themselves to determine their political relationship with the proposed United States of Indonesia;

"(7) After these elections, a constitutional convention will be held under democratic procedures to draft a constitution for the United States of Indonesia;

"(8) It was further understood that if, after signing the agreement concerning Java, Sumatra and Madura ... either party should desire United Nations observation over the transfer of authority from the Netherlands government to the government of the United States of Indonesia, the other party will take this request 'into serious consideration.' ...

"(12) A union between the United States of Indonesia and other parts of the Kingdom of the Netherlands under the King of the Netherlands. ... The Republic of Indonesia will be a State within the United States of Indonesia. The United States of Indonesia will be a sovereign independent State, in equal partnership with the Netherlands Kingdom in the Netherlands-Indonesian Union."

However, despite these developments, the Indonesian Republican Government resigned on January 23 following a week of attack from Indonesians who accused the government of having capitulated to the Netherlands Government. The resignation of the cabinet, headed by Premier Amir Sjarifudin, was announced simultaneously with the resignation of the two Indonesian negotiators who had worked with him in the conferences with the Good Offices Committee. A United Nations delegation left for Jogjakarta on the 24th to investigate the matter. Van Mook and other high Netherlands officials met in

Batavia "to discuss the situation." However, on the 26th, a statement from the Committee indicated that the Indonesians had unconditionally accepted the plan for a political settlement and that negotiations would be resumed on the 28th.

The official view of the United States was given in a statement released by the Department of State on January 20, in which it was said that the news that the Dutch and Indonesian delegations had "accepted the proposals of the Committee of Good Offices as a basis for the settlement" of the dispute had been "received with much gratification." The statement said that "the United States Government regards these proposals as eminently just and practical, and believes that they will provide a sound basis for political and economic development of the Indies, beneficial not only to the Indonesians and Dutch, but also to the rest of the world."

On the 26th, the Committee of Good Offices announced that it wished to make clear that the delegations of the Netherlands and the Republic of Indonesia both had accepted unconditionally, as an agreed basis for political negotiations, the six principles put forward by the Committee on the 17th on board the "Renville." The Committee also said that negotiations would be resumed on January 28 or as soon as air transportation became available to bring the Republican delegation from Jogjakarta to Batavia.

## 5. Palestine

### "Illegal" Munitions Shipment

A shipment of more than 100,000 pounds of TNT, in cases marked "used industrial machinery" and consigned to a firm in Tel Aviv, was discovered on January 3 when one case broke open as it was being loaded at Jersey City. While the source of this shipment was being investigated, seizures were made in New Jersey and New York of another explosive--known variously as M-3, Composition C, and cyclamite--which was found to have been purchased as surplus material from the War Assets Administration. An embargo on all undelivered orders of surplus explosives was immediately issued by the War Assets Administration, and on the 13th Secretary of the Army Royall said that the sale would be cancelled.

Meanwhile on January 10 it was acknowledged that 200 tons of M-3 had been bought on behalf of the Jewish Agency for Palestine. On the same day the Agency issued a statement pointing out that through the Arab states arms and munitions could be furnished to the Palestine Arabs, and that the Jewish Agency was responsible for the Jewish state to be created. It was further said that:

"It therefore devolves upon the responsible defense forces of the Jewish community of Palestine to rush preparations in a race against time in view of the threatened Arab aggression ... and the announced early withdrawal of British troops. Accordingly steps were taken to arrange for the legitimate purchase of war surplus matériel and equipment. The materials found ... were to the best of our knowledge legally procured to await legitimate shipment. ...all such purchases and their transportation were in full conformity with American law."



### Arab League Moves

The Arab Higher Executive Committee announced in Cairo on January 5 that it would set up a "national administration for all Palestine" (during February)--with a general national assembly and an executive council under "a responsible President enjoying the confidence of the General National Assembly."

A further conference of the Arab League states in early February, to resolve differences and to plan action for dealing with various problems arising out of the partition of Palestine, was considered likely. The chief point of dissension (between Haj Amin el Husseini, the Mufti of Jerusalem, and King Abdullah of Trans-Jordan) concerned the conduct of the Palestine campaign. King Abdullah's wish to annex the Arab section of Palestine in order to create a "Greater Syria" was in conflict with the wishes of the Mufti and the other members of the League. Another matter to be considered was said to be the establishment of a uniform policy toward American oil companies.

It was disclosed on January 15 that the Arab states had sent notes to the United States and Great Britain advising that they had determined to give all possible aid to the Palestine Arabs and that any American or British protest would be rejected.

### United Nations Palestine Commission

The United Nations Palestine Commission held 26 meetings during January--all of these, with the exception of the first session, being held in private. Forty one rules of procedure had been approved provisionally by the 15th, subject to later revision.

At the first meeting (9th), the Commission adopted a resolution inviting Great Britain (as the mandatory power in Palestine), the Arab Higher Committee, and the Jewish Agency to designate representatives to aid the Commission with "such authoritative information and other assistance" as the Commission might require in the discharge of its functions. The invitation was promptly accepted by Great Britain and the Jewish Agency--Sir Alexander Cadogan and Moshe Shertok being designated respectively. A telegram from the Arab Higher Committee, received on January 19, expressed its refusal as follows: "[The] Arab Higher Committee is determined [to] persist in rejection [of] partition and in refusal [to] recognize UNO resolution [in] this respect and anything deriving therefrom. ..."

After a detailed examination of the resolution adopted by the General Assembly, the Commission listed some of the major tasks involved in carrying out the recommendations. Among these were:

- "(i) Arranging for the progressive transfer of administrative authority from the Mandatory Power to the Commission and the establishment of Provisional Councils of Government;
- "(ii) supervision of the functioning of the Provisional Councils of Government, including the maintenance of public order

in the transitional period following the termination of the Mandate;

- "(iii) delimitation of frontiers of the Arab and Jewish States and the City of Jerusalem;
- "(iv) exercise of political and military control over the armed militia in each of the projected States, including selection of their high commands;
- "(v) the preparatory work in connection with the establishment of the Economic Union, including the creation of the Preparatory Economic Commission and the maintenance of the economic services with which it will be concerned in the transitional period;
- "(vi) negotiations on the allocation and distribution of assets;
- "(vii) maintenance of administration and essential public services following the termination of the Mandate;
- "(viii) preparation for the application of the United Nations Statute to the City of Jerusalem; and
- "(ix) protection of Holy Places."

In order to cope with these tasks and the problems arising from them, consultations were held on January 14 and 21 with Cadogan. He informed the Commission concerning the present situation in Palestine and his government's intentions regarding methods of transferring authority to the Commission and for handling the termination of the British mandate. Cadogan said there had been a "very severe diminution" in the functions and authority of the civil government, and added the warning: "The Government of Palestine fear that strife ... will be greatly intensified when the Mandate is terminated, and that the international status of the United Nations Commission will mean little or nothing to the Arabs in Palestine... . Thus, the Commission will be faced with the problem of how to avert certain bloodshed on a very much wider scale than prevails at present."

In regard to the transfer of authority and the termination of the mandate, Cadogan reiterated the following points:

- "(i) The withdrawal of British forces will have been completed by 1 August 1948;
- "(ii) the United Kingdom Government has decided 'to lay down the Mandate and terminate the Mandatory Administration at the latest on 15 May 1948, or earlier, if the necessary arrangements can be completed in time';
- "(iii) the United Kingdom Government regards it 'as essential that, so long as the Mandatory regime is retained, they must retain undivided control over the whole of Palestine. On the



appointed day--that is, 15 May--their responsibility for the Government of Palestine will be relinquished as a whole. They cannot agree to relinquish it piecemeal. They are, however, prepared to agree to the Commission's arrival in Palestine shortly before the Mandate is terminated, in order that there may be an overlap of, say, a fortnight, during which the Commission can take up its responsibilities';

- "(iv) the United Kingdom Government 'will endeavor to give the Commission the benefit of their experience and knowledge of the situation in Palestine, subject always to their decision that they are unable to take part in the implementation of the United Nations plan. That is, of course, in accordance with the statement made originally to the General Assembly...'

In addition to the consultations between the British representative and the Commission, written questions had been handed to Cadogan dealing with the following three basic problems: security, including British plans for evacuation of forces and disposition of arms and equipment; immigration, with special reference to the quota policy and Jewish immigrants held at Cyprus; and the administrative responsibilities of the Commission, involving plans for the transfer of authority to the Commission.

On the question of immigration, Cadogan (at a January 21 meeting) said that Great Britain intended to maintain the present policy of admitting 1,500 Jews monthly until the mandate was terminated. On the evacuation of a seaport and hinterland to provide facilities for immigration, it was pointed out: "His Majesty's Government have repeatedly made it clear that, so long as a mandatory regime is maintained, they must retain undivided control over the whole of Palestine. For this reason, it is not possible for my Government to comply with the recommendation concerning the evacuation of a Jewish port and hinterland, so long as the Mandate continues." In addition to this formal answer, Cadogan emphasized that the decision had been reached not only because such evacuation was contrary to the conclusion to lay down the mandate as a whole, but also because the opening of a seaport to unlimited numbers of Jewish immigrants and possibly to the unregulated importation of arms would "produce a most serious deterioration of the security situation in Palestine with incalculable effects upon the maintenance of the Mandatory administration, the preparations for the withdrawal of the British element in the administrative machine, and the evacuation of British troops and stores... ."

On economic matters the Commission had taken steps toward the establishment of the Preparatory Economic Commission envisaged in the Assembly resolution, and had also outlined some of the economic problems to be referred to that body--such as setting up the customs union, currency questions, and transport and communications. The Commission asked Great Britain to furnish the necessary inventories in connection with the allocation and liquidation of the assets of the Palestine Administration. Other economic matters under preliminary consideration before the opening of negotiations with Great Britain were the problems of adequate food supplies and communications services after the termination of the mandate, currency problems, and maintenance of fiscal arrangements.

Regarding security measures, information given to the Commission by both the Mandatory Power and the representative of the Jewish Agency led to the conclusion that in this area the situation was "likely to worsen [rather] than to improve." It was said "serious attention" was being devoted to this aspect of the Commission's responsibilities. An over-all conclusion pointed out that:

"... There is much preparatory work which the Commission may undertake at the headquarters, but the full implementation of the Assembly's recommendations requires the presence of the Commission in Palestine considerably in advance of the transfer of authority from the Mandatory Power to the Commission. The delimitation of boundaries, to undertake which the Commission envisages the establishment of an expert boundaries commission; preparations to ensure continuity in the maintenance of essential public services; the selection of Provisional Councils of Government and their activation; the creation of armed militia; and negotiations with regard to Economic Union, can be effectively undertaken only when the Commission is present in Palestine. In view of the complicated and often highly technical nature of the problems incident to the implementation of the resolution, and the limited time at the disposal of the Commission before the termination of the Mandate, the Commission attaches the greatest importance to the progress of its negotiations with the Mandatory Power."

#### Statute for Jerusalem

The first draft of a statute for governing the internationalized city of Jerusalem, prepared by two groups of experts, was received on January 7 by the working committee set up by the Trusteeship Council. During ensuing meetings, the committee read and revised the draft and heard the views of representatives of the "communities whose spiritual and religious interests are located in the City of Jerusalem." Representatives of the Jewish Agency for Palestine emphasized the necessity for naming a governor for the city as soon as possible in order to assure continuity of government. They also expressed hope of increased local autonomy for villages and municipalities in the area, as well as concern over matters of security and food supplies after the mandate ended. Representatives of Orthodox Jews suggested provisions to assure complete religious freedom in the city--the same point also being stressed by the Archbishop of the Greek Orthodox Church. On January 23 the working committee adopted the revised text of the draft statute which comprised 46 articles--the text to be circulated to members of the Trusteeship Council for consideration when they reconvened in early February.

#### United States Policy Announcements on Palestine

Various aspects of United States policy toward the situation in Palestine were considered during the month. President Truman was asked on January 15 whether, in view of the crisis in the Holy Land, he believed that United States troops should be sent there. He responded that he did not think so, and added that eventually the United Nations would have an international police force. Questioned as to whether he meant that force would be placed in Palestine the President said not necessarily, but he



declared that such a force could be sent wherever the United Nations needed it for enforcement.

On the 28th, Secretary of State Marshall answered queries on Palestine by saying that the United States was not at this time considering any modification of the embargo on sending arms to the Middle East. A question as to whether there had recently been a re-examination of American policy regarding Palestine was answered in the negative--the Secretary of State asserting that the American position was in support of the United Nations.

An announcement on January 30 by the U. S. Consulate General in Jerusalem gave warning that American citizens serving in the armed forces of either Jews or Arabs would lose their passports and their rights to protection if injured or captured while in such service. In addition it was said that naturalized citizens would lose their citizenship by fighting for a foreign power. The number of Americans in Palestine was placed at some 4,500--of whom about 500 were said to be officials, newspapermen, or others on business and not involved in the hostilities.

### Internal Violence

Disorder and violence mounted during January--mostly in the form of sporadic attacks. There were many bombings, one of which destroyed the Jaffa headquarters of the Arab Higher Committee, while fear of terrorism brought a virtual paralysis of business in Jerusalem and Haifa. An Arab force, said to have been assembled in Syria, attacked Jewish settlements in northeast Palestine. Strong representations on the matter were made to the Syrian Government by the British Minister in Damascus. Accusations by both Arabs and Jews that the Palestine Government was "protecting the one at the expense of the other" were denied on the 17th by Sir Alan G. Cunningham, the High Commissioner, who said he wished "to make it clear that so long as the mandate is in existence it is the object of the security forces to prevent without discrimination both Jew attacking Arab and Arab attacking Jew."

A partial picture of the situation was revealed in figures given to the House of Lords on January 20 by the Earl of Listowel, Minister of State for the Colonies. From November 30, 1947 to January 18, 1948, he said the total casualties in Palestine had been as follows: British (soldiers, police, and civilians), 42 killed, 114 wounded; Arabs, 345 killed, 877 wounded; Jews, 333 killed, 633 wounded. On the same day Sir Stafford Cripps, Chancellor of the Exchequer, told the House of Commons that the cost of maintaining military forces and supplies in Palestine from July 1 to November 30, 1947 was about £100 million.

On the following day (21st) a question in the House of Commons about the importation of arms and ammunition into Palestine brought from D. R. Rees-Williams, Colonial Under Secretary, the assurance that "all the resources of the Palestine government have been and will continue to be used for the remaining period of the mandate to prevent clandestine importation, whether by land or sea, whether by Jews or Arabs."

### C. PROPAGANDIST ACTIVITIES

#### Provisional U.S.-U.N. Accord on Press Correspondents

As a consequence of the failure of the U. S. Department of State and the Secretariat of the United Nations to interpret similarly the headquarters agreement covering the accreditation of correspondents to the United Nations (disclosed in connection with two newsmen arrested by the United States in December), discussions were opened on procedures of consultation under this agreement. On January 7 Trygve Lie, in a letter to Warren R. Austin, said that "the appropriate officials of the Secretariat [would] always be available for consultation and discussion with representatives of your government to ensure the working out of mutually satisfactory arrangements."

In the course of ensuing talks, representatives of the press, radio, movies, and other information agencies were considered in relationship to the headquarters agreement and, on January 12, announcement was made that a general understanding on a system of consultation had been reached. Under its terms, the United Nations promised to notify the United States of all applications for accreditation, while the American Government, in turn, agreed to advise the United Nations within two weeks of any comments it wished to make on such applications. The United Nations further agreed to review the position of the United States, determine the accreditations, and advise them of its action. However, the section containing this procedure also provided that a correspondent who, in the view of the United States, had abused his professional and residential privileges, might be expelled from the country--with the United States holding the final authority for determining the meaning of "abuse." The United Nations was expected to notify the United States of all representatives presently accredited--these individuals being recognized as coming under the terms of the headquarters agreement until the procedures of consultation were fully established on or before March 1. Further discussions were scheduled to establish the details of the system of consultation.

#### Department of State Information Service Authorized

President Truman signed the Mundt Bill on January 27 authorizing an information service in the Department of State. However, it did not provide funds for such a project. The measure gave Congressional approval to the "Voice of America" broadcasts, and authorized the possible sending of nonmilitary United States advisers to all countries--as well as the training of foreign technicians in United States Government agencies. Supporters of the bill in Congress suggested a budget up to \$40 million for 1948.

#### United Nations Subcommittee on Freedom of Information

At the continuing session of the Subcommittee on Freedom of Information, work proceeded on the drafting of a declaration on freedom of information to be included in the draft international declaration on human rights. A declaration was accepted by the Subcommittee on January 31 by a vote of 10 to 2, with the Soviet Union and Czechoslovakia in opposition. The text, as adopted, follows in part:



"I. Every person shall have the right to freedom of thought and expression without interference by governmental action. This right shall include freedom to hold opinions, to seek, receive and impart information and ideas, regardless of frontiers... .

"II. The right to freedom of expression carries with it duties and responsibilities. Penalties, liabilities or restrictions limiting this right may therefore be imposed for causes which have been clearly defined by law, but only with regard to: Matters which must remain secret in the vital interests of the state; expressions which incite persons to alter by violence the system of government; expressions which directly incite persons to commit criminal acts. ...

"III. Previous censorship of written and printed matter, the radio and newsreels shall not exist.

"IV. Measures shall be taken to promote the freedom of information through the elimination of political, economic, technical, and other obstacles which are likely to hinder the free flow of information."

Throughout the session, discussion of censorship and other related subjects brought out cleavages between the U. S. representative, Zechariah H. Chafee, and the Soviet member, Jacob M. Lomakin--which culminated in Soviet refusal to vote in favor of the draft text. On the 22nd Chafee, in a statement to the group, suggested to Lomakin that the phrase "promotion of hatred between nations" be substituted for the term "war-mongering." Chafee conceded that all countries were to blame in part, saying that "we have all done wrong," but he added that it was not fair "that my country should be singled out as the only one that has done wrong." In the course of a forty-minute speech on the 22nd, the Soviet representative told the Subcommittee that "despite the differences between the systems of the great powers, they can collaborate successfully," and he pointed out that the press could assist by working to set up friendly relationships among countries. On January 28 the U. S. representative spoke in favor of the publication and free discussion of all political points of view, answering a Soviet suggestion that fascist ideas be forbidden publication just as poisoned foods were not allowed to be sold or distributed. Chafee termed this a false analogy, and declared: "Strychnine is strychnine in every country of the world, but the difficulty about speech is that what is poison in one country seems to be the chief and favorite dish in another country."

#### IV. SECURITY PROBLEMS

The general problem of the national security of the United States was dealt with in the report of the five-man temporary Air Policy Commission made public on January 13. The Commission had been appointed by the President during July with instructions to make recommendations sufficiently broad "in scope and purpose" in order that they might "assist in revising old policies and in framing new ones," and "serve as a guide for formulating a carefully considered national air policy." The Commission pointed out that:

"We believe that the United States will be secure in an absolute sense only if the institution of war itself is abolished under a regime of law. World peace and the security of the United States are now the same thing.

"Even the most optimistic view of the record of the United Nations does not assure us that United Nations will develop in time the necessary authority to prevent another great war.

"The United Nations cannot assure a permanent peace except on a foundation of free communication throughout the world.

"Unilateral disarmament by the United States is out of the question.

"The United States must have a double-barrelled policy abroad. It must work to achieve world peace through support and development of the United Nations. And at the same time it must prepare to defend itself for the possibility that war may come. Not being able to count on absolute security under law, it must seek the next best thing--relative security under the protection of its own arms.

"Relative security will be founded only in a policy of arming the United States so strongly (1) that other nations will hesitate to attack us or our vital national interests and (2) that if we are attacked, we will be able to smash the assault at the earliest possible moment. ..."

##### A. ORGANIZATION OF A SYSTEM OF COLLECTIVE SECURITY

##### Convening of the Interim Committee of the General Assembly

Secretary-General Trygve Lie convoked the first meeting of the Interim Committee at Lake Success on January 5, at which time Dr. Louis Padilla Nervo of Mexico was elected chairman. Forty-four representatives were in attendance, with delegates expected to be named shortly from El Salvador, Ethiopia, Guatemala, Honduras, Lebanon, Paraguay, and Yemen. Fulfilling the announcement made by Soviet Deputy Foreign Minister Vyshinsky on November 6, there was no representation from Byelorussia, Czechoslovakia, Poland, the Ukraine, the Soviet Union. or Yugoslavia.



In the course of his opening remarks, the Secretary-General observed that:

"The General Assembly will be better enabled to carry out its political duties if we can, for example, define more precisely the methods of mediation and conciliation to be applied in the adjustment of disputes. Likewise, there is much which might be done usefully in defining the methods to be used when the General Assembly extends its good offices to the parties to a dispute. ..."

U. S. delegate Warren Austin stressed that the Interim Committee was a subsidiary body, and that the American Government did not regard it as infringing, in any way, on the prerogatives of the Security Council. He pointed out that "Members of the United Nations who act in the spirit of the Charter have nothing to fear from any of the activities of the Committee. ..." Austin further expressed the hope that the states not present would soon join the group.

During its first session the Interim Committee dealt with the veto issue and adopted a resolution inviting its members to submit, before February 16, proposals to implement the Committee's responsibility to consider methods for giving effect to the portions of the Charter having to do with general principles of co-operation in the maintenance of international peace and security and with the promotion of international co-operation in the political field. The Committee adjourned on the 9th after agreeing to convene again on February 23.

## 1. Modification of the Veto Provisions

### Discussion in the Interim Committee

The Interim Committee was directed by the General Assembly, in its resolution of November 21, to study the problem of the veto in the Security Council. In the course of the discussions which followed the opening of the Committee's proceedings on January 5, the United States representative presented a draft resolution which proposed that the Committee should request that members who desired to submit proposals on the "veto" should do so--such proposals to be immediately circulated to the members, and the problem brought up by the chairman for consideration by the Committee not later than March 15. After some deliberation, further discussion on the United States proposal and the matter of a work schedule for the Committee was postponed until January 9.

When the group reconvened on the 9th, the Peruvian delegate sharply opposed the resolution on the ground that the United States was attempting to postpone the veto issue for political reasons. To this attack, Austin expressed astonishment and declared the Peruvian's comments to be "unworthy." He said further, "I denounce such charges against the United States... [It was also said that] the United States asked for a postponement. On the contrary, the United States by its resolution in substance and in form asked for action--immediate action--and put a deadline on it. The date fixed therein was March 15, beyond which we are not expected to go. We are expected to submit to our governments the various proposals which we may choose to

make here. ..." Upon taking a vote, however, the resolution was approved 39 to 1 (Peru), with four abstentions (Colombia, El Salvador, Iraq, and Saudi Arabia).

## 2. The International Control of Atomic Energy

### United States View of Soviet Attitude

In an address delivered on January 15, Frederick Osborn, Deputy U. S. Representative on the United Nations Atomic Energy Commission, declared that the problems of atomic control appeared unlikely to be solved unless world public opinion was both "freely informed and free to give itself expression." Explaining his statement, he referred to the difficulties the Atomic Energy Commission had experienced during 1947 when the Soviet Union had made attacks on the Commission's First Report. Osborn said Soviet behaviour disclosed:

- "1. An initial distrust of the proposals of other nations and presentation of the Soviet position in a series of counter-proposals.
- "2. An effort to get concessions from other nations without yielding anything themselves.
- "3. Reversion to their original position.

"The above was accompanied by bitter denunciation and propaganda with attempts to sow discord and arouse suspicion, and apparently by a stream of misleading information to their own government."

After describing Soviet obstructionist activities, Osborn continued:

"... I am forced to recognize that a change in attitude towards the control of atomic energy by the Soviet Government is unlikely unless the Kremlin changes its policy or the iron curtain is raised, and there is in the Soviet Union some informed and effective public opinion which could bring about a reappraisal of its position. All the lessons of history indicate that understanding and change are not the attributes of a ruling group which has successfully isolated itself from the main currents of popular thinking. Never has any government isolated its people more completely from world opinion or shown less respect for that opinion than the Soviet Government.

"Until this intellectual isolation is ended there seems little hope for the establishment of that condition of world cooperation essential to the effective control of atomic energy. ..."

### United Nations Atomic Energy Commission

With Argentina and the Ukraine assuming places as new members of the Atomic Energy Commission, the Working and Control Committees began operating according to the schedule adopted at the December meeting. The Working Committee devoted its three January meetings to consideration of



the Soviet proposals first advanced in June 1947. It was agreed to take the plan paragraph by paragraph--the first paragraph being the subject of detailed questions by members of the Committee at the first two gatherings. The text under discussion read:

"For ensuring the use of atomic energy only for peaceful purposes, in accordance with the international convention on the prohibition of atomic and other major weapons of mass destruction and also with the purpose of preventing violations of the convention on the prohibition of atomic weapons and for the protection of complying states against hazards of violations and evasions, there shall be established strict international control simultaneously over all facilities engaged in mining of atomic raw materials and in production of atomic materials and atomic energy."

At a meeting on January 16 questions were asked by the French representative as to whether international control was to cover control of prospecting, including possible clandestine activities of this kind, and activities related to the production of nuclear fuels--such as production of heavy water and pure graphite. Soviet delegate Andrei Gromyko replied that prospecting should be decided on and carried out by individual governments and not by an international agency. As to related activities, he said control should not be extended to branches of production not directly producing atomic energy; such control would be "interference in the internal affairs of states." Another query as to control of scientific research activities brought out the Soviet view that nations "must have the right and the responsibility for carrying out" research, though it might also be carried out by the international agency; accumulation of dangerous amounts of atomic materials should be handled by the international agency with the same measures which would apply to industrial installations producing atomic materials. The question of clandestine activities in prospecting, Gromyko said, raised the whole question of such activities in connection with any international convention; there would have to be an assumption that nations signing the convention to control atomic energy undertook obligations to implement the convention and that this fact would exclude clandestine activities.

At the next session on January 22 Gromyko placed special emphasis on the two main questions raised in paragraph 1, to which he thought members of the Committee were not paying proper attention, namely: the conclusion of a special separate convention on the prohibition of atomic weapons; and the simultaneous establishment of international control. On the first of these points the Chinese delegate suggested that it might be possible to have separate conventions but a co-ordinated enforcement "so that the implementation of the terms will be co-ordinated." The British delegate declared that if the Soviet proposal meant that simultaneous international control should be established at all stages from the beginning of the functioning of the International Control Agency, such a scheme was a technical and practical impossibility, since the agency would not have at its disposal trained personnel and complete machinery from the first day of its establishment. Gromyko replied that the Soviet delegation attached great importance to the simultaneous establishment of control and that no other practical approach to the problem was possible.

The Soviet proposal on a convention to outlaw atomic bombs was discussed on the 29th, and Gromyko was asked for a "categorical yes or no" as to whether the Soviet view was that the convention to outlaw bombs must be concluded before an agreement to set up international control was made. Gromyko asserted that a convention outlawing atomic bombs must be "signed and ratified and put into force" before the control agreement was concluded. This drew the objection from the Chinese delegate that it would "make no sense" to proceed with prohibition of atomic bombs without the assurance that international control would be agreed on, and inquired if there was any guarantee that "the minority would go along with the majority." Gromyko said that agreement on international control would be a matter for diplomatic negotiation and that it would be "wrong to speak of guarantees in advance of negotiations."

Meanwhile, the Control Committee, on January 19, began consideration of the structure of the international control agency. It was decided that the Committee would invite experts to give their experience on organizational structure. Three categories of experts were decided on: (1) persons with experience in organs of national control of atomic energy; (2) representatives of Specialized Agencies of the United Nations; and (3) persons in charge of large industrial managements. The statements of the experts were then to be evaluated by a working group of the Committee and a report presented.

On the 26th, the Committee heard the first of the experts-- Chester I. Barnard, president of the New Jersey Bell Telephone Company, and a consultant to the U. S. delegation to the Atomic Energy Commission. He recommended an eleven-man commission, elected by the General Assembly from nominees presented by the Security Council, with a general manager in direct charge but responsible to the commissioners. The Committee also decided to set up a new working group for consideration of the composition of the international agency, including qualifications, method of selection, tenure, and related questions.

#### Report of Joint Congressional Committee

The first report of the Joint Congressional Committee on Atomic Energy, set up by the Atomic Energy Act of 1946, placed heavy stress on the production of weapons of national defense while the question of international atomic control remained unsettled. The report, "Development and Control of Atomic Energy," released on January 30, declared:

"Until such time as an effective, enforceable and reliable program for the international control of atomic energy is in successful operation, the most vital business of the Atomic Energy Commission must be the meeting of the atomic requirements of national defense.

"The joint committee has been assured that those charged with these responsibilities are keenly aware thereof. This phase of the atomic energy program is of paramount and continuing interest to the joint committee and the committee considers that continuous knowledge and reassurance of the adequate discharge of these responsibilities is fundamentally necessary to its reliable evaluation of the general success of our program.



"The concern which large segments of the public, the press and members of Congress have shown for the security of our atomic-energy program is shared most actively by the members of the joint committee."

The report emphasized that the United States was "presently far ahead of any other nation in over-all knowledge and development in the field of atomic energy," and the joint committee believed that the United States needed to continue to maintain their pre-eminence in this field.

### 3. The Regulation of Conventional Armaments

#### United Nations Working Committee

Meeting for the first time in 1948, the Working Committee of the Commission for Conventional Armaments engaged in a discussion, on January 21, of an Australian resolution introduced during December. The proposal, as set forth by Australia, listed the "immediate objectives" of the general regulation and reduction of armaments and conditions necessary for their implementation. Strong opposition was voiced by Soviet delegate Andrei Gromyko, whereupon Sir Alexander Cadogan submitted a resolution giving the British view on this issue. This provided in part that:

- "1. A system for the regulation and reduction of armaments and armed forces should provide for the adherence of all States. Initially it must include at least all States having substantial military resources.
- "2. A system for the regulation and reduction of armaments and armed forces [could] only be put into effect in an atmosphere of international confidence and when the agreements envisaged in Article 43 of the Charter have been concluded.
- "3. This confidence could be established by measures such as the following:
  - (a) The international control of atomic energy, since without such control a state of international confidence would be impossible.
  - (b) Conclusion of the peace settlements with Germany and Japan, since until these ex-enemy States are demilitarized and suitably controlled, and the security of other States thus assured, it cannot be said that conditions of international peace and security have been established.

As the British and Australian resolutions had several points in common, it was agreed that representatives of the two nations should get together in an attempt to draft a joint resolution.

## B. REGIONAL PROBLEMS

### 1. The Mediterranean and Near East

#### United States Marine Reinforcements to Mediterranean Area

Varied reaction resulted from the Department of the Navy announcement on January 2 of the reinforcement of marine detachments on four United States Navy vessels in the Mediterranean. The pressure of Left-Wing sources in Rome caused the Foreign Ministry (on the 4th) to instruct the Italian Ambassador to the United States, Alberto Tarchiani, to request clarification by the American Government of its decision to "restore the normal complements" on an aircraft carrier and three light cruisers in the area. On the 6th, the Italian Ambassador in Washington replied in a dispatch to the Foreign Ministry in Rome. It was explained in part that the step taken by the Department of the Navy was of "modest importance" (the United States Mediterranean fleet simply being engaged in "routine" training exercises) and that relations between the United States and other Mediterranean countries--including Greece--had not changed so as to merit the sending of naval reinforcements there as certain sources had intimated.

Among immediate adverse comments which this action drew, the radio of General Markos charged that the coming of the marines served to prove that the United Nations Special Balkan Committee was "a group of agents of American imperialism sent here to find an excuse for American troops' landing in Greece." A Moscow radio report further noted: "The stated arrival in Greek ports of an American squadron ... the transfer of fresh detachments of American marines ... as well as other military measures carried out in haste by the United States, all confirm ... the existence of plans for the military occupation of Greece by American armed forces."

## C. OTHER ASPECTS OF UNITED STATES MILITARY SECURITY

#### Nimitz Report on Naval Bases

A plea to maintain and further develop United States superiority in naval air-sea strength was made by Fleet Admiral Chester W. Nimitz on the day of his retirement from the Navy (December 15, 1947) in a report given to Secretary of the Navy Sullivan--released on January 6, 1948. Pointing out that present American control of the sea "is so absolute that it is sometimes taken for granted," the report declared that such control "can be perpetuated only through the maintenance of balanced naval forces of all categories adequate to our strategic needs (which include those of the non-totalitarian world), and which can flexibly adjust to new modes of air-sea warfare and which are alert to develop and employ new weapons and techniques as needed."

Regarding the employment of naval forces in the future, it was remarked:

"... For any future war to be of sufficient magnitude to affect us seriously it must be compounded of two primary ingredients: vast



manpower and tremendous industrial capacity. These conditions exist today in the great land mass of Central Asia, in East Asia and in Western Europe. The two latter areas will not be in a position to endanger us for decades to come unless they pass under unified totalitarian control. In the event of war with any of the three we would be relatively deficient in manpower. We should, therefore, direct our thinking toward realistic and highly specialized operations. We should plan to inflict unacceptable damage through maximum use of our technological weapons and our ability to produce them in great quantities.

"Initial devastating air attack in the future may come across our bordering oceans from points on the continents of Europe and Asia as well as from across the polar region. Consequently our plans must include the development of specialized forces of fighter and interceptor planes for pure defense, as well as the continued development of long range bombers. Offensively our initial plans should provide for the coordinated employment of military and naval air power launched from land and carrier bases, and of guided missiles against important enemy targets. ..."

In summary, it was visualized that "early combat operations in the event of war within the next decade" would consist of action taken "defensively" and "offensively." The first aspect included protection of (1) "our vital centers from devastating attacks by air and from missile-launching submarines," (2) "areas of vital strategic importance, such as sources of raw materials, our advanced bases, etc.," (3) "our essential lines of communication and those of our allies," and (4) "our occupation forces during re-enforcement or evacuation." Suggested operations to be carried out "offensively" were: (1) "devastating bombing attacks from land and carrier bases on vital enemy installations," (2) "destruction of enemy lines of communication accessible to our naval and air forces," and (3) "occupation of selected advanced bases on enemy territory and the denial of advance bases to the enemy through the coordinated employment of naval, air and amphibious forces."

The report stressed that it would be the function of the Navy "to carry the war to the enemy so that it [would] not be fought on United States soil." It was argued that the best method of devastating vital enemy areas would be by the projection of bombs and missiles; that bomber fleets would probably be incapable, for several years to come, of making two-way trips between continents--even over the polar routes--with heavy bomb loads. Therefore, until beachheads could be captured, it was said that it would be necessary for devastation to be carried on by air-sea power--including aircraft launched from carriers as well as heavy surface ships and submarines projecting guided missiles.

In the concluding portion of the statement it was pointed out that:

"In measuring capabilities against a potential enemy, due appreciation must be taken of the factors of relative strength and weakness. We may find ourselves comparatively weak in manpower and in certain elements of aircraft strength. On the other hand we are

superior in our naval air-sea strength. It is an axiom that in preparing for any contest, it is wisest to exploit--not neglect--the element of strength. Hence a policy which provides for balanced development and coordinated use of strong naval forces should be vigorously prosecuted in order to meet and successfully counter a sudden war in the foreseeable future."

## 1. Strategic Raw Materials

### Outlook for United States Oil Supplies

Secretary of Defense James Forrestal told a House Armed Services subcommittee on January 19 that the outlook in oil supplies was very grave and that military and civilian needs in any major war effort would "exceed by at least 2,000,000 barrels a day the predictable production from the continental United States." Surveying the production and potentialities of oil areas in the United States, Latin America, and the Middle East, the Secretary of Defense expressed hope for an increase of production in the Western Hemisphere and pointed out that the proved reserves of the hemisphere outside of the United States amounted to about 16 per cent of the world total. It was anticipated, he said, that oil from the Middle East would eventually replace oil from the Western Hemisphere for use in European areas; and he stressed that the European Recovery Program would require the flow of large amounts of Middle East oil products to Western Europe.

The Secretary of Defense said it was the policy of the Department of National Defense to purchase as much foreign oil as possible in order to prevent the depletion of domestic supplies. He said that the military establishment believed that "development of the tidelands areas should proceed as rapidly as possible and that all necessary action should be taken to permit rapid development of those areas," and he urged government participation in "secondary recovery" of oil from old fields. Also he advocated government encouragement in the experimental production of synthetic oils as a possible alternative to foreign sources.

## 2. Military Bases

### Panama Bases

The United States Army announced on January 16 that United States military forces had evacuated 12 of the 14 defense sites in the Republic of Panama, following the December rejection by the Panama National Assembly of the defense sites agreement. Of the remaining two sites, it was said that San José island would be completely evacuated by January 31 and the Rio Hato air base "as soon as possible." Meanwhile, Panamanian President Jimenez said on the 13th that Foreign Minister Mario de Diego had notified U. S. Ambassador Hines that his government was prepared to "hear proposals" on the defense sites matter. "Informed" American sources indicated, however, that in view of probable National Assembly action it was unlikely that new agreement could presently be considered.



APPENDIX

## LIST OF SELECTED DOCUMENTS

The documents listed in this Appendix are the more important ones issued during January bearing primarily on the developments recorded in this Summary. The list, which generally follows the arrangement of headings in the Summary, has been largely restricted to materials of an official nature, and limitations of space have made it necessary to choose only a very few of the principal items. For additional reference purposes, full texts or excerpts can usually be found in various newspapers or periodicals.

GENERAL

Nazi-Soviet Relations 1939-1941, Department of State Publication 3023, U. S. Government Printing Office, 362 pp.

President Truman's State of the Union Message to Congress, January 7, 1948, Department of State Wireless Bulletin No. 5, January 7, 1948, 11 pp.

Foreign Affairs Debate (Text of speech delivered in House of Commons by the Secretary of State for Foreign Affairs, the Rt. Hon. Ernest Bevin, on January 22, 1948). British Information Services, Washington, D. C., Release G-535, 15 pp.

PROBLEMS OF THE PEACE SETTLEMENTS

Statement by General McCoy before Far Eastern Commission, January 21, 1948. Far Eastern Commission Press Release, January 21, 1948.

Far Eastern Commission Policy Decision on Supply of Food for Civilian Consumption in Japan, Department of State Bulletin, Vol. XVIII, No. 446, January 18, 1948, p. 93.

Soviet Proposals on German Assets in Austria, Department of State Press Release No. 66, January 28, 1948.

ECONOMIC AND SOCIAL PROBLEMS

Interim Aid Agreement with France, Department of State Press Release No. 3, January 2, 1948, 3 pp.

Interim Aid Agreement with Austria, Department of State Press Release No. 6, January 2, 1948, 4 pp.

Interim Aid Agreement with Italy, Department of State Press Release No. 9, January 3, 1948, 3 pp.

Secretary of State Marshall's Statement before Senate Foreign Relations Committee on Assistance to European Economic Recovery, January 8, 1948, Department of State Bulletin, Vol. XVIII, No. 446, January 18, 1948, pp. 71-77



Commodity Reports (including Manpower), European Recovery Program, issued under Department of State Press Release No. 17, January 5, 1948. (Mimeographed Releases A-L; 4 printed supplements A-B, C, D, E.)

Secretary of State Marshall's Statement before House Foreign Affairs Committee on Relation of European Recovery Program to American Foreign Policy, January 12, 1948, Department of State Bulletin, Vol. XVIII, No. 447, January 25, 1948, pp. 112-114.

Country Studies Prepared by Executive Branch in connection with European Recovery Program, issued by Department of State under Release No. 36, January 14, 1948. (17 mimeographed reports on 16 participating countries and Western Germany)

Report to Senate Foreign Relations Committee on Administration of United States Aid for a European Recovery Program, submitted by the Brookings Institution, January 22, 1948, U. S. Government Printing Office, 1948, 26 pp.

The Economic Report of the President, Transmitted to the Congress January 1948, U. S. Government Printing Office, Washington, 1948, 136 pp.

Supplementing Proclamations of December 16, 1947 and January 1, 1948, Carrying out General Agreement on Tariffs and Trade and Exclusive Trade Agreement with Cuba, respectively, Department of State Press Release No. 70, January 30, 1948.

Status of General Agreement on Tariffs and Trade, Released to the Press January 15, Department of State Bulletin, Vol. XVIII, No. 447, January 25, 1948, pp. 120-121.

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#### POLITICAL PROBLEMS

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